

# Philip Morris International - Forests 2018

## F0. Introduction

### F0.1

#### **(F0.1) Give a general description of and introduction to your organization.**

Who we are:

Philip Morris International Inc. (PMI) is a leading international tobacco company with a diverse workforce of approximately 80,600 people across the globe.

In 2017, our products were sold in over 180 markets, and we operated 46 production facilities globally. Headquartered in New-York, U.S.; PMI has its Operations Center in Lausanne, Switzerland.

What we do:

PMI manufactures and sells cigarettes and other nicotine-containing products in markets outside of the United States of America. Our portfolio comprises both international and local brands and is led by Marlboro, the world's best-selling international cigarette.

In 2017, PMI net revenues amounted to USD 78,098 million including excise taxes on products worth USD 49,350 million. 2017 net revenues less excise taxes amounted to 28,748 million USD. 2017 Operating Income was USD 11, 503 million. PMI's 2017 shipment volume for cigarettes and heated tobacco units was 798,152 million units (761,926 million cigarettes and 36,226 million heated tobacco units).

Our vision:

We are building our future on smoke-free products that are a much better consumer choice than continuing to smoke cigarettes. Our vision is that these products ultimately replace cigarettes to the benefit of adult smokers, society, our company and our shareholders.

Our strategy:

To this end our core strategies are:

- Smoke-Free: Develop, market, and sell smoke-free alternatives, and switch our adult smokers to these alternatives, as quickly as possible around the world
- Transition: Transition our resources from cigarettes to smoke-free alternatives
- Regulation: Propose regulatory policies that encourage the replacement of cigarettes by smoke-free alternatives
- Sustainability: Drive world-class sustainability programs across our entire value chain
- Talent: Be the employer of choice for our global workforce and work tirelessly to attract the best talent

- Transparency: Share our progress, and invite dialogue and independent verification
- Growth: Provide superior returns for our shareholders

#### Sustainability:

For PMI, sustainability means creating long-term value while minimizing the negative externalities associated with our products, operations and value chain. From the more than 350,000 farmers from which we source tobacco right up to the approximately 150 million consumers of PMI products, we have an important impact on the communities and the environment around us, which we are committed to address. We cannot achieve this alone. The engagement beyond our own operations is key, as this is where the most significant impacts take place. While operating in a highly regulated environment, we strive to go beyond mere compliance to achieve a sustainable smoke-free future. Our business has a significant, global supply chain organized by five main categories. We have a large agricultural supply chain, ranging from tobacco growers to producers of other agricultural products, such as clove, menthol and guar gum. Another part of the supply chain consists of manufacturers of direct materials used to produce cigarettes and other tobacco products, such as acetate tow (for cigarette filters) and paper (both cigarette paper and packaging materials). Key to our business are also the manufacturers of machines for our cigarette and heated tobacco products factories, a highly specialized industry. A recently added part of our supply chain consists of the manufacturers of electronic devices for heated tobacco products and e-cigarettes. Finally, we work with thousands of suppliers of goods and services that are not specific to the tobacco business, but essential for any business, such as office equipment etc. As a responsible business, we want to understand and continuously address potential sustainability issues in our global supply chain. We are working with business partners to proactively identify, manage, and reduce risks, and create shared value. PMI supported the call for a price on carbon in the Paris Climate Agreement. Our targets, recognized by the Science-Based Targets initiative in 2017, demonstrate how PMI can contribute to keeping global warming below 2°C based on pre-industrial levels. We have set our performance baseline as 2010. Against that baseline, we aim to reduce absolute CO<sub>2</sub>e emissions from our own operations by 30% by 2020, 40% by 2030 and 60% by 2040. We are well on track in 2017, achieving an overall reduction of 31% for our GHG scopes 1 and 2 emissions, driven by the use of greener electricity, exceeding our 2020 target. Across our value chain, we aim to reduce absolute CO<sub>2</sub>e emissions by 40% by 2030. In 2017, we achieved a 30% reduction across scopes 1, 2 and 3, driven by gains in curing efficiency and use of greener fuels in tobacco agriculture. We also have a long-standing commitment to reduce the emissions intensity of our value chain (measured in CO<sub>2</sub>e per million cigarettes equivalent) by 30% by 2020. In 2017 we remained on track to meet this target, reaching a 24% reduction since 2010

## F0.2

**(F0.2) State the start and end date of the year for which you are reporting data.**

	Start Date	End Date
Reporting year	January 1 2017	December 31 2017

### F0.3

**(F0.3) Select the currency used for all financial information disclosed throughout your response.**

USD

### F0.4

**(F0.4) Select the stage(s) of the value chain which best represents your organization's area of operation pertaining to forest risk commodities.**

Manufacturing

### F0.5

**(F0.5) Do you produce, use, or sell materials or products that contain any of the forest risk commodities?**

	Produce/use/sell	Disclosing	Explanation if produce/use/sell but not disclosing
Timber	Yes	Yes	<Field Hidden>
Palm Oil	Yes	No	PMI sources PO derived vegetal glycerin, the deforestation assessment of PMI value chain developed in 2017 concluded that palm oil does not represent a material risk of deforestation for PMI due to the small amount of palm oil that goes into PMI products as in the form of vegetal glycerin. PMI sources roughly 4,000 metric tons. of vegetal glycerin derived from palm oil. The amount of palm oil needed to produce this amount of vegetal glycerin is close to 0% of global palm oil production.
Cattle Products	No	<Field Hidden>	<Field Hidden>
Soy	No	<Field Hidden>	<Field Hidden>
Other - Rubber	No	<Field Hidden>	<Field Hidden>
Other	No	<Field Hidden>	<Field Hidden>

### F0.6

**(F0.6) Are there any parts of your direct operations not included in your disclosure?**

No

**F0.7**

---

**(F0.7) Are there any parts of your supply chain not included in your disclosure?**

Yes

**F0.7a**

---

**(F0.7a) Identify the parts of your supply chain not included in your disclosure.**

**Exclusion**

Source/ country/ geographical area

**Description of exclusion**

Approximately 5% of the board and paper sourced by PMI is sourced regionally. This has been excluded from the disclosure.

**Potential for forests-related risk**

Potential for forests-related risk, evaluated, but not disclosing to CDP

**Please explain**

PMI sources the majority of board and paper globally; this means that the supply chain is centrally managed by the Operations Center based in Switzerland. A small share of board and paper is sourced regionally; this means that materials are purchased from regional suppliers and the supply chain is managed by the regional offices. Five regions are defined: Latin America and Canada (LAC), Asia, Eastern Europe, Middle East and Africa (EEMA) South, and EEMA North. The disclosure excludes board and paper sourced regionally. PMI disclosure includes five forms of timber: wood-based bioenergy, board, paper, acetate tow, and fine papers. The results of the deforestation assessment of PMI's value chain showed that approximately 5% of board and paper materials are sourced regionally. Additionally, a share of those are from recycled materials, therefore, regionally sourced pulp and paper are considered to pose a non-material deforestation risk for PMI and their exclusion does not give an inaccurate or misleading picture of the company's deforestation risk management. No material exclusions have been made to the response and the information provided through this questionnaire gives an accurate picture of the company's deforestation risk management.

---

**F1. Current state**

---

**F1.1**

---

**(F1.1) How does your organization produce, use, or sell your disclosed commodity(ies)?**

**Forest risk commodity**

Timber

**Activity**

Using as input into manufacturing process for power generation

**Form of commodity**

Wood-based bioenergy

**Source**

Smallholders

Multiple contracted producers

**Country/Region of origin**

Argentina

Brazil

India

Indonesia

Malawi

Mozambique

Pakistan

Philippines

Poland

United Republic of Tanzania

**% of procurement spend**

<1%

**Comment**

The percentage is calculated based on the total procurement spend which includes direct and indirect materials and services.

---

**Forest risk commodity**

Timber

**Activity**

Distributing/packaging

**Form of commodity**

Paper  
Primary packaging  
Secondary packaging  
Tertiary packaging

**Source**

Contracted suppliers (manufacturers)

**Country/Region of origin**

Australia  
Austria  
Brazil  
Canada  
Chile  
China  
Finland  
France  
Germany  
Indonesia  
New Zealand  
Portugal  
Spain  
Sweden  
United Kingdom of Great Britain and Northern Ireland  
United States of America  
Uruguay

**% of procurement spend**

6-10%

**Comment**

The percentage is calculated based on the total procurement spend which includes direct and indirect materials and services. The country of origin listed is the country of origin of the wood. Both board and paper together account for 9% of total procurement spend which includes direct and indirect materials, and services.

---

**Forest risk commodity**

Timber

**Activity**

Using as input into product manufacturing

**Form of commodity**

Other, please specify (Fine Papers and Acetate tow)

**Source**

Contracted suppliers (manufacturers)

**Country/Region of origin**

Brazil

Canada

China

Denmark

France

Japan

Norway

South Africa

Sweden

United States of America

**% of procurement spend**

1-5%

**Comment**

Fine papers are specialty papers that are used exclusively for tobacco products. The disclosure is organized using the same categories used by PMI to manage the supply chain of timber products. The same categories were used in the deforestation risk assessment of PMI's value chain, which has been the basis for setting priorities for further managing deforestation risks. Therefore, PMI has decided to use the same categories in its disclosure, separating fine papers. This share is based on the total procurement spend which includes direct and indirect materials, and services.

---

**F1.1a**

---

**(F1.1a) Indicate from which State/region(s) and municipality(ies) your disclosed commodity(ies) originate.**

**Forest risk commodity**

Timber

**Activity**

Using as input into manufacturing process for power generation

**Country/Region of origin**

Brazil

**State/Region**

Specify state/region (Bahia)

**Municipality**

Specify municipality (1) (Cocos)

**Please explain**

PMI is currently implementing a harmonized and verifiable monitoring framework to allow monitoring of progress towards PMI's goals on sustainable leaf curing fuel. As part of this monitoring framework, tobacco leaf suppliers are required to report on the location of their contracted tobacco farmers and to collect information regarding the location of the tobacco farmers and the source of firewood.

---

**Forest risk commodity**

Timber

**Activity**

Using as input into manufacturing process for power generation

**Country/Region of origin**

Brazil

**State/Region**

Specify state/region (Santa Catarina)

**Municipality**

Specify municipality (1) (Chapecó)

Specify municipality (2) (Figueira)

Specify municipality (3) (Marechal Bormann y Guatambú)

**Please explain**

PMI is currently implementing a harmonized and verifiable monitoring framework to allow monitoring of progress towards our goals on sustainable leaf curing fuel. As part of this monitoring framework, suppliers are required to report on the location of their contracted tobacco farmers and to collect information regarding the location of the tobacco farmers and the source of firewood.

---

**Forest risk commodity**

Timber

**Activity**

Using as input into manufacturing process for power generation

**Country/Region of origin**

Brazil

**State/Region**

Specify state/region (Rio Grande do Sul)

**Municipality**

Specify municipality (1) (Barro Vermelho)

Specify municipality (2) (Bosque)

Specify municipality (3) (Cachoeira do Sul)

Specify municipality (4) (Capane)

Specify municipality (5) (Cordilheira)

Specify municipality (6) (Ferreira)

Specify municipality (7) (Tres Vendas)

Specify municipality (8) (Botucarai)

Specify municipality (9) (Candelária)

Specify municipality (10) (Novo Cabrais)

Specify municipality (11) (Restinga Seca y Jazidas)

Specify municipality (12) (, Paraíso do Sul)

**Please explain**

PMI is currently implementing a harmonized and verifiable monitoring framework to allow monitoring of progress towards our goals on sustainable leaf curing fuel. As part of this monitoring framework, suppliers are required to report on the location of their contracted tobacco farmers and to collect information regarding the location of the tobacco farmers and the source of firewood

**Forest risk commodity**

Timber

**Activity**

Using as input into manufacturing process for power generation

**Country/Region of origin**

Indonesia

**State/Region**

Specify state/region (Lombok)

**Municipality**

Specify municipality (1) (East Lombok)

Specify municipality (2) (West Lombok)

Specify municipality (3) (Central Lombok)

**Please explain**

PMI developed deforestation risk maps for countries where farmers use firewood for tobacco curing and where medium to high deforestation risks were identified in the initial high level global deforestation assessment. A deforestation risk map was developed for Indonesia in 2016 and an update will be done in 2018. As an input for the development of the forest risk map, PMI requires tobacco leaf suppliers to provide the exact location of their contracted farmers. Additionally, PMI has also identified the distance that tobacco farmers travel to source firewood. Therefore, PMI is able to identify the municipality where the wood-based bioenergy is sourced from.

---

**Forest risk commodity**

Timber

**Activity**

Using as input into manufacturing process for power generation

**Country/Region of origin**

Argentina

**State/Region**

Specify state/region (Salta)

**Municipality**

Specify municipality (1) (All Departments )

**Please explain**

PMI developed deforestation risk maps for countries where farmers use firewood for tobacco curing and where medium to high deforestation risks were identified in the initial high level global deforestation assessment. A deforestation risk map was developed for Argentina. As an input for the development of the deforestation risk map, PMI requires tobacco leaf suppliers to provide the exact location of their contracted farmers. Additionally, PMI has also identified the distance that tobacco farmers travel to source firewood. Therefore, PMI is able to identify the municipality where the wood-based bioenergy is sourced from.

---

**Forest risk commodity**

Timber

**Activity**

Using as input into manufacturing process for power generation

**Country/Region of origin**

Argentina

**State/Region**

Specify state/region (Jujuy)

**Municipality**

Specify municipality (1) (All departments)

**Please explain**

PMI has developed forest risk maps for countries using firewood to cure tobacco including Argentina. As an input for the development of the forest risk map, PMI requires tobacco leaf suppliers to provide the exact location of their contracted farmers. Additionally, PMI has also identified the distance that tobacco farmers travel to source firewood. Therefore, PMI is able to identify the municipality where the wood-based bioenergy is sourced from.

---

**Forest risk commodity**

Timber

**Activity**

Using as input into manufacturing process for power generation

**Country/Region of origin**

Argentina

**State/Region**

Specify state/region (Tucuman)

**Municipality**

Specify municipality (1) (All Departments)

**Please explain**

PMI has developed forest risk maps for countries using firewood to cure tobacco including Argentina. As an input for the development of the forest risk map, PMI requires tobacco leaf suppliers to provide the exact location of their contracted farmers. Additionally, PMI has also identified the distance that tobacco farmers travel to source firewood. Therefore, PMI is able to identify the municipality where the wood-based bioenergy is sourced from.

---

**Forest risk commodity**

Timber

**Activity**

Using as input into manufacturing process for power generation

**Country/Region of origin**

Argentina

**State/Region**

Specify state/region (Chaco)

**Municipality**

Specify municipality (1) (Almirante Brown)

Specify municipality (2) (General Guemes)

**Please explain**

PMI has developed forest risk maps for countries using firewood to cure tobacco including Argentina. As an input for the development of the forest risk map, PMI requires tobacco leaf suppliers to provide the exact location of their contracted farmers. Additionally, PMI has also identified the distance that tobacco farmers travel to source firewood. Therefore, PMI is able to identify the municipality where the wood-based bioenergy is sourced from.

**Forest risk commodity**

Timber

**Activity**

Using as input into manufacturing process for power generation

**Country/Region of origin**

Argentina

**State/Region**

Specify state/region (Catamarca)

**Municipality**

Specify municipality (1) (Antofagasta de la Sierra)

Specify municipality (2) (Tinogasta)

Specify municipality (3) (Poman)

Specify municipality (4) (Belen)

Specify municipality (5) (Santa María)

Specify municipality (6) (Andalgala)

Specify municipality (7) (Ambato)

Specify municipality (8) (El Alto Viejo)

Specify municipality (9) (Santa Rosa )

### **Please explain**

PMI has developed forest risk maps for countries using firewood to cure tobacco including Argentina. As an input for the development of the forest risk map, PMI requires tobacco leaf suppliers to provide the exact location of their contracted farmers. Additionally, PMI has also identified the distance that tobacco farmers travel to source firewood. Therefore, PMI is able to identify the municipality where the wood-based bioenergy is sourced from

---

### **Forest risk commodity**

Timber

### **Activity**

Using as input into manufacturing process for power generation

### **Country/Region of origin**

Argentina

### **State/Region**

Specify state/region (Santiago del Estereo)

### **Municipality**

Specify municipality (1) (Copo)

Specify municipality (2) (Alberdi)

Specify municipality (3) (Figueroa)

Specify municipality (4) (Banda)

Specify municipality (5) (Jimenez)

Specify municipality (6) (Pellegrin)

Specify municipality (7) (Rio Hondo)

Specify municipality (8) (Guasayan)

Specify municipality (9) (Capital)

Specify municipality (10) (Robles)

Specify municipality (11) (Salpica)

Specify municipality (12) (San Martin )

### **Please explain**

PMI has developed forest risk maps for countries using firewood to cure tobacco including Argentina. As an input for the development of the forest risk map, PMI requires tobacco leaf suppliers to provide the exact location of their contracted farmers. Additionally, PMI has also identified the distance that tobacco farmers travel to source firewood. Therefore, PMI is able to identify the municipality where the wood-based bioenergy is sourced from.

---

**Forest risk commodity**

Timber

**Activity**

Other, please specify (● Distributing/ packaging – Board )

**Country/Region of origin**

Brazil

**State/Region**

Don't know

**Municipality**

Don't know

**Please explain**

For pulp and paper products, PMI currently does not have visibility beyond the country level in Brazil. A deforestation risk assessment of the value chain was developed in 2017, and currently PMI is planning the next steps to improve traceability beyond the country level. Only one board supplier sources from Brazil, this supplier accounts for 12% of all board

---

**Forest risk commodity**

Timber

**Activity**

Other, please specify (● Distributing/ packaging – Board )

**Country/Region of origin**

Indonesia

**State/Region**

Don't know

**Municipality**

Don't know

**Please explain**

For pulp and paper products, PMI currently does not have visibility beyond the country level in Indonesia. A deforestation risk assessment of the value chain was developed in 2017, and currently PMI is planning the next steps to improve traceability beyond the country level. Only one board supplier sources from Indonesia, this supplier accounts for 9% of board sourced by PMI, in addition to Indonesia the supplier sources from an additional country. So the estimated share of board from Indonesia is less than 9%.

---

**Forest risk commodity**

Timber

**Activity**

Other, please specify (● Distributing/ packaging – Paper)

**Country/Region of origin**

Brazil

**State/Region**

Don't know

**Municipality**

Don't know

**Please explain**

For pulp and paper products, PMI currently does not have visibility beyond the country level in Brazil. A deforestation risk assessment of the value chain was developed in 2017, and currently PMI is planning the next steps to improve traceability beyond the country level. Only one paper supplier sources from Brazil, this supplier accounts for 2% of paper sourced by PMI.

---

**Forest risk commodity**

Timber

**Activity**

Other, please specify (● Distributing/ packaging – Paper )

**Country/Region of origin**

Indonesia

**State/Region**

Don't know

**Municipality**

Don't know

**Please explain**

For pulp and paper products, PMI currently does not have visibility beyond the country level in Indonesia. A deforestation risk assessment of the value chain was developed in 2017, and currently PMI is planning the next steps to improve traceability beyond the country level. Only one board supplier sources from Indonesia, this supplier accounts for 9% of board sourced by PMI, in addition to Indonesia the supplier sources from an additional country. So the estimated share of board from Indonesia is less than 9%.

---

**Forest risk commodity**

Timber

**Activity**

Using as input into product manufacturing

**Country/Region of origin**

Brazil

**State/Region**

Don't know

**Municipality**

Don't know

**Please explain**

For pulp and paper products including fine papers, PMI currently does not have visibility beyond the country level in Brazil. A deforestation risk assessment of the value chain was developed in 2017, and currently PMI is planning the next steps to improve traceability beyond the country level. All suppliers of fine papers source from Brazil and at least four other countries.

---

**Forest risk commodity**

Timber

**Activity**

Using as input into product manufacturing

**Country/Region of origin**

Brazil

**State/Region**

Don't know

**Municipality**

Don't know

### Please explain

PMI requests information from suppliers regarding the source of the raw materials. For acetate tow, suppliers are able to identify the location of the pulp mill. All four suppliers of acetate tow source from this area. Currently the share of pulp coming from this area is unknown, however, all suppliers also source from at least seven other mills in other countries.

## F1.2

**(F1.2) Indicate the percentage of your organization's revenue that was dependent on your disclosed forest risk commodity(ies) in the reporting year.**

	% of revenue dependent on commodity	Comment
Timber	91-99%	100% of PMI heat sticks and cigarettes sales require timber derivative products. Additionally, PMI uses board and paper for packaging of the majority of PMI's products.
Palm Oil	<Field Hidden>	<Field Hidden>
Cattle products	<Field Hidden>	<Field Hidden>
Soy	<Field Hidden>	<Field Hidden>
Other - Rubber	<Field Hidden>	<Field Hidden>
Other	<Field Hidden>	<Field Hidden>

## F1.3

**(F1.3) Do you own or manage land used for the production of your disclosed commodity(ies)?**

**Forest risk commodity**

Timber

**Own and/or manage land?**

Don't own or manage land

**Type of control**

&lt;Field Hidden&gt;

**Description of type of control**

&lt;Field Hidden&gt;

**Country/Region**

&lt;Field Hidden&gt;

**Land type**

&lt;Field Hidden&gt;

**Size (Hectares)**

&lt;Field Hidden&gt;

**Do you have a system in place to monitor forests-related risks?**

&lt;Field Hidden&gt;

**Type of monitoring system**

&lt;Field Hidden&gt;

**Description of monitoring system**

&lt;Field Hidden&gt;

**Recent infraction(s)**

&lt;Field Hidden&gt;

**Explanation of infraction**

&lt;Field Hidden&gt;

---

**F1.4**

**(F1.4) For your disclosed commodity(ies), indicate if you collect data regarding your own compliance and/or the compliance of your suppliers with the Brazilian Forest Code.**

**Timber****Do you collect data regarding compliance with the Brazilian Forest Code?**

Yes, from suppliers

**Please explain**

PMI purchases tobacco from tobacco leaf suppliers which contract farmers who grow tobacco in their own land and who use firewood to cure the Flue Cured Virginia (FCV) tobacco they produce. Tobacco leaf suppliers have field technicians who visit tobacco farmers a few times every year and assess in the farm the firewood sources used to cure the FCV tobacco. Tobacco

Leaf suppliers in Brazil gather information regarding compliance with the Brazilian Forest Code. At the end of the year a report is compiled with the number of non compliant cases which can lead to contract termination. Additionally, the field technicians assess the presence of buffer zones implemented on farm as well as other APP (Permanent Protected Areas) in accordance with the BR forest code. This information is available to PMI.

### **Palm Oil**

**Do you collect data regarding compliance with the Brazilian Forest Code?**

<Field Hidden>

**Please explain**

<Field Hidden>

### **Cattle products**

**Do you collect data regarding compliance with the Brazilian Forest Code?**

<Field Hidden>

**Please explain**

<Field Hidden>

### **Soy**

**Do you collect data regarding compliance with the Brazilian Forest Code?**

<Field Hidden>

**Please explain**

<Field Hidden>

### **Other - Rubber**

**Do you collect data regarding compliance with the Brazilian Forest Code?**

<Field Hidden>

**Please explain**

<Field Hidden>

### **Other**

**Do you collect data regarding compliance with the Brazilian Forest Code?**

<Field Hidden>

**Please explain**

<Field Hidden>

### **F1.4b**

---

**(F1.4b) For your disclosed commodity(ies), indicate which Key Performance Indicators (KPIs) you use to measure the compliance of your suppliers with the Brazilian Forest Code and their performance against these indicator(s).**

**Forest risk commodity**

Timber

**KPIs and performance**

% of suppliers on the Rural Environmental Registry (CAR) database

% of suppliers with Legal Reserve (RL) and/or Permanent Protected Area (APP) deficit

% of suppliers with signed Terms of Commitment of the Environmental Regularization Program (PRA)

% of suppliers with no gross deforestation after July 2008

Other, please specify (●No use of native wood for as firewood )

**Number of suppliers**

3

**Please explain**

PMI purchases tobacco from tobacco leaf suppliers which contract farmers who grow tobacco in their own land and who use firewood to cure the Flue Cured Virginia (FCV) tobacco they produce. Tobacco leaf suppliers have field technicians who visit tobacco farmers a few times every year and assess in the farm the firewood sources used to cure the FCV tobacco. The information is recorded and reported. Tobacco leaf suppliers in Brazil gather information regarding compliance with the Brazilian Forest Code. At the end of the year a report is compiled with the number of non compliant cases which can lead to contract termination. Additionally, the field technicians assess the presence of buffer zones implemented on farm as well as other APP (Permanent Protected Areas) in accordance with the BR forest code. This information is available to PMI. Currently, on average, 71% of tier 2 suppliers (farmers) are listed in the CAR database, while 66% have a RL and/or APP. Regarding the indicator on percentage of suppliers with no gross deforestation after July 2008, the PMI Monitoring Framework for Sustainable Curing Fuel that tobacco leaf suppliers should comply with states 2006 as the cut-off year. This means that plantations resulting from conversion of secondary/degraded/old growth forest are not considered sustainable under the PMI Monitoring Framework. Therefore, when tobacco leaf suppliers comply with the PMI Monitoring Framework, they also comply with the no gross deforestation after July 2008 indicator.

---

**Forest risk commodity**

Timber

**KPIs and performance**

Other, please specify (Buffer zones on farms and permanent area)

**Number of suppliers**

3

### Please explain

PMI purchases tobacco from tobacco leaf suppliers which contract farmers who grow tobacco in their own land and who use firewood to cure the Flue Cured Virginia (FCV) tobacco they produce. Tobacco leaf suppliers have field technicians who visit tobacco farmers a few times every year and assess in the farm the firewood sources used to cure the FCV tobacco. The information is recorded and reported. Tobacco leaf suppliers in Brazil gather information regarding compliance with the Brazilian Forest Code. At the end of the year a report is compiled with the number of non compliant cases which can lead to contract termination. Additionally, the field technicians assess the presence of buffer zones implemented on farm as well as other APP (Permanent Protected Areas) in accordance with the BR forest code. This information is available to PMI. Currently, on average, 71% of tier 2 suppliers (farmers) are listed in the CAR database, while 66% have a RL and/or APP. Regarding the indicator on percentage of suppliers with no gross deforestation after July 2008, the PMI Monitoring Framework for Sustainable Curing Fuel that tobacco leaf suppliers should comply with states 2006 as the cut-off year. This means that plantations resulting from conversion of secondary/degraded/old growth forest are not considered sustainable under the PMI Monitoring Framework. Therefore, when tobacco leaf suppliers comply with the PMI Monitoring Framework, they also comply with the no gross deforestation after July 2008 indicator.

## F1.5

### (F1.5) Does your organization collect production and/or consumption data for your disclosed commodity(ies)?

	Data availability/Disclosure
Timber	Consumption data available, disclosing
Palm Oil	<Field Hidden>
Cattle products	<Field Hidden>
Soy	<Field Hidden>
Other - Rubber	<Field Hidden>
Other	<Field Hidden>

## F1.5a

### (F1.5a) Disclose your production and/or consumption data.

#### Forest risk commodity

Timber

**Data type**

Consumption data

**Volume**

1295000

**Metric**

Metric tons

**Data coverage**

Full commodity production/consumption

**Please explain**

This is an estimated figure that considers all the different forms of timber-related products, which are not originally purchased in the same units

---

**F1.6**

---

**(F1.6) Have you identified sufficient sources of sustainable materials to meet your current operational needs? If yes, what are you doing to ensure the security/continuity of this supply?**

**Timber****Sustainable source identified**

Yes

**Primary action to ensure supply**

Engaging in capacity building activities in the value chain

**Please explain**

PMI has adopted a Global Roadmap for sustainable firewood, which includes the following three global targets: 1. No Old Growth Forest cut 2. Renewable sources/Self-sufficient firewood 3. Full traceability The global roadmap for sustainable firewood provides a timeline for the achievement of the three above targets, the suggested timeline for its achievement is until 2020. Biodiversity management and Social and economic development are aspirational sustainability targets to be achieved in the long term beyond 2020. PMI is currently implementing a harmonized and verifiable Monitoring Framework for Sustainable Leaf Curing Fuel (referred to as Monitoring Framework) to monitor the progress towards PMI's global targets. The monitoring framework is composed of four principles, and Principle 2 "Be Sustainable" focuses on sustainability and traceability of the fuel source. The purpose is to ensure that all origins switch to use fuels of a demonstrated sustainable source such as biomass from waste agricultural residues or wood fuel from sources which are proven to be sustainably managed (in accordance with the PMI defined criteria of sustainable wood fuel). Additionally, no coal should be used as a fuel

to cure tobacco. PMI is supporting and engaging in capacity building activities with tobacco leaf suppliers to ensure they are able to comply with the Monitoring Framework by 2020 and beyond. We consider that the implementation of the Monitoring Framework is proving effective and we estimate that above 65% of the curing fuel is sustainable and traceable.

### **Palm Oil**

#### **Sustainable source identified**

<Field Hidden>

#### **Primary action to ensure supply**

<Field Hidden>

#### **Please explain**

<Field Hidden>

### **Cattle products**

#### **Sustainable source identified**

<Field Hidden>

#### **Primary action to ensure supply**

<Field Hidden>

#### **Please explain**

<Field Hidden>

### **Soy**

#### **Sustainable source identified**

<Field Hidden>

#### **Primary action to ensure supply**

<Field Hidden>

#### **Please explain**

<Field Hidden>

### **Other - Rubber**

#### **Sustainable source identified**

<Field Hidden>

#### **Primary action to ensure supply**

<Field Hidden>

#### **Please explain**

<Field Hidden>

### **Other**

**Sustainable source identified**

<Field Hidden>

**Primary action to ensure supply**

<Field Hidden>

**Please explain**

<Field Hidden>

**F1.7****(F1.7) Has your organization experienced any detrimental forests-related impacts?**

Yes

**F1.7a****(F1.7a) Describe the forests-related detrimental impacts experienced by your organization, your response, and the total financial impact.****Forest risk commodity**

Timber

**Impact driver type**

Reputational and markets

**Primary impact driver**

Uncertainty about product origin and/or legality

**Primary impact**

Brand damage

**Description of impact**

In 2017, there was increased attention from the public and international organizations to the environmental impacts of the tobacco industry. When the industry is associated with deforestation, PMI as a market leader has suffered reputational damage. The uncertainty about the origin of all of PMI's timber-based materials, has limited its ability to respond, which can affect its entire business. The scale of the impact could cover PMI's entire operations.

**Primary response**

Greater traceability of forest-risk commodities

**Total financial impact**

0

**Description of response**

The primary impact chosen uniquely affects the company as uncertainty about the product origin and legality limits PMI's ability to respond to brand damage associated with deforestation. Nonetheless, PMI has the target to source 100% traceable and sustainable firewood that is also verified by a third party by 2020. To do so, PMI has developed a Monitoring Framework for Sustainable Curing Fuels that all tobacco leaf suppliers should comply with. PMI is working with tobacco leaf suppliers to support them in complying with all the elements of the Monitoring Framework. Additionally, in 2017, PMI implemented a deforestation risk assessment of its entire value chain to understand its impact on forests. The assessment was developed with the involvement of all relevant stakeholders including procurement teams, corporate affairs, health and safety, among others. PMI is also exploring how to engage with pulp and paper products suppliers to increase traceability. The outcomes to date are: • Over 65% of the curing fuel is sustainable and traceable • The deforestation assessment of PMI's value chain highlighted the opportunities to improve traceability in pulp and paper products. To date, the financial impact has been the costs associated to the design and implementation of the Monitoring Framework, which is equal to roughly 10% of the spending on wood fuel by the farmers supplying FCV tobacco volume requirements.

---

## **F2. Procedures**

---

### **F2.1**

---

#### **(F2.1) Does your organization undertake a forests-related risk assessment?**

Yes, forests-related risks are assessed

#### **F2.1a**

---

#### **(F2.1a) Select the options that best describe your procedures for identifying and assessing forests-related risks.**

##### **Timber**

##### **Value chain stage**

Direct operations

Supply chain

##### **Coverage**

Full

##### **Risk assessment procedure**

Assessed as part of other company-wide risk assessment system

##### **Frequency of assessment**

Annually

### How far into the future are risks considered?

> 6 years

### Tools and methods used to identify and assess risks

Internal company methods

External consultants

Other, please specify (Big Chain Tool)

### Please explain

External consultants (South Pole) were hired to develop the first PMI deforestation risk assessment. The scope of the assessment was defined to include PMI's entire value chain, specifically, all materials globally sourced by PMI for the manufacturing of its products that, during the production process, have a link to the two main drivers of deforestation: agriculture and mining. The consultants developed a materiality assessment to prioritize materials within the scope through two indicators: global deforestation impact of the material, and PMI's impact, approximated by PMI's market share. From this prioritization exercise, targeted risk assessments were implemented for tobacco leaf and priority pulp and paper products. Additionally, PMI hired external consultants to assess the forests risks associated with the use of biomass for tobacco curing by farmers and in PMI's factories. The consultants developed deforestation risk maps for countries where farmers use firewood for tobacco curing and where medium to high deforestation risks were identified in the initial high level global deforestation assessment. Internal company methods were used to assess the risks associated with the use of timber for barn construction. To assess the deforestation impact of land use change, PMI used the BigChain Tool (BCT). The BCT was developed to execute a rapid screening of deforestation linked to commodity production, and be able to identify corporate sustainability risks on a geographic basis. The BCT assessed the impact of land use change associated with the expansion of tobacco farming for all countries where PMI sources tobacco. The assessment was developed at the regional level, the results showed that only five countries had deforestation that could be associated with tobacco farming, in all cases, the impact was less than 1 ha for the period 2001 to 2014, therefore, deforestation resulting from land use change associated with tobacco farming is considered a non-material risk for PMI. These methods were selected because PMI considered that the necessary expertise for this assessment was not available internally therefore a combination of internal company methods and external consultants was used.

### Palm Oil

#### Value chain stage

<Field Hidden>

#### Coverage

<Field Hidden>

#### Risk assessment procedure

<Field Hidden>

**Frequency of assessment**

<Field Hidden>

**How far into the future are risks considered?**

<Field Hidden>

**Tools and methods used to identify and assess risks**

<Field Hidden>

**Please explain**

<Field Hidden>

**Cattle Products**

**Value chain stage**

<Field Hidden>

**Coverage**

<Field Hidden>

**Risk assessment procedure**

<Field Hidden>

**Frequency of assessment**

<Field Hidden>

**How far into the future are risks considered?**

<Field Hidden>

**Tools and methods used to identify and assess risks**

<Field Hidden>

**Please explain**

<Field Hidden>

**Soy**

**Value chain stage**

<Field Hidden>

**Coverage**

<Field Hidden>

**Risk assessment procedure**

<Field Hidden>

**Frequency of assessment**

<Field Hidden>

**How far into the future are risks considered?**

<Field Hidden>

**Tools and methods used to identify and assess risks**

<Field Hidden>

**Please explain**

<Field Hidden>

**Other - Rubber**

**Value chain stage**

<Field Hidden>

**Coverage**

<Field Hidden>

**Risk assessment procedure**

<Field Hidden>

**Frequency of assessment**

<Field Hidden>

**How far into the future are risks considered?**

<Field Hidden>

**Tools and methods used to identify and assess risks**

<Field Hidden>

**Please explain**

<Field Hidden>

**Other**

**Value chain stage**

<Field Hidden>

**Coverage**

<Field Hidden>

**Risk assessment procedure**

<Field Hidden>

**Frequency of assessment**

<Field Hidden>

**How far into the future are risks considered?**

<Field Hidden>

## **Tools and methods used to identify and assess risks**

<Field Hidden>

### **Please explain**

<Field Hidden>

## **F2.1b**

---

### **(F2.1b) Which of the following issues are considered in your organization's forests-related risk assessment(s)?**

#### **Availability of forest risk commodities**

##### **Relevance & inclusion**

Relevant, always included

##### **Please explain**

This issue is important because the availability of different forms of timber to be used as fuel is key for tobacco curing, and the availability of timber to produce products such as fine papers and acetate tow is also key to the manufacture of cigarettes. Therefore, assessing the availability of timber is important to ensure PMI's future ability to manufacture its main products. Decreased availability of timber would impact the entire value chain. To assess this issue, as part of the Monitoring Framework for Sustainable Leaf Curing Fuel, tobacco leaf suppliers must show that their contracted farmers have identified fuel sources at least until 2020. They can do so by providing proof of long term contracts with fuel vendors or by presenting a study. The assessment also considers existing mitigation actions implemented by tobacco leaf suppliers, for example, both tobacco leaf suppliers and farmers are managing their own woodlots to ensure availability of the resource in the future, in some areas in Africa, assisted natural regeneration practices are implemented . PMI then assess the share of tobacco leaf suppliers and farmers that comply with this requirement. PMI supports tobacco leaf suppliers with technical assistance if needed. This is an emerging issue and the results are used to inform the development of strategies to collaborate with tobacco leaf suppliers.

#### **Quality of forest risk commodities**

##### **Relevance & inclusion**

Relevant, always included

##### **Please explain**

This issue is important to PMI because the type of wood and tree species used as fuel for tobacco curing can have efficiency implications such as affecting the amount of fuel needed to cure tobacco. As tobacco is the main ingredient in the manufacture of PMI's products, this issue can impact the entire value chain. This issue is assessed as part of the Monitoring Framework for Sustainable Leaf Curing Fuels, where all tobacco leaf suppliers must identify the species used for firewood.

This is an emerging issue and the results are used to develop initiatives encouraging farmers to use more efficient types of fuel, for example, the design and implementation of trainings to teach farmers how to optimize the performance of biomass when used for curing tobacco, this might include drying the wood, or using specific species.

### **Impact of activity on the status of ecosystems and habitats**

#### **Relevance & inclusion**

Relevant, always included

#### **Please explain**

This issue is important to PMI because it can potentially affect the availability of timber and because if PMI has negative impact on ecosystems and habitats, this could lead to brand damage which could affect PMI's revenue and thus affecting PMI's entire business. To assess this issue, PMI developed a deforestation risk assessment of its entire value chain in order to identify the impact of PMI's activities on the status of the ecosystems and habitats. It found that the use of firewood to cure tobacco and the sourcing of pulp and paper products pose material deforestation risks. The risk assessment analyzed all the pulp and paper products suppliers and countries of origins, as well as all the countries where firewood is used for tobacco curing. Additionally, PMI developed deforestation risk maps for countries where farmers use firewood for tobacco curing and where medium to high deforestation risks were identified in the initial high level global deforestation assessment. Updates of the forest risk maps for relevant countries were done in 2017 and 2018. The forest risk maps analyze the impact of tobacco curing on forests surrounding tobacco farmers. This is a current issue and the results have informed strategies to mitigate the identified risks, for example, the Monitoring Framework was developed as a result of the identification of global deforestation risks associated with tobacco curing. The results of the forest risk maps are used by tobacco leaf suppliers to develop forest risk mitigation plans focusing on farmers who are in proximity to forest at risk of deforestation.

#### **Regulation**

#### **Relevance & inclusion**

Relevant, always included

#### **Please explain**

This issue is important to PMI because PMI operates in over 180 countries and in order to operate, it must ensure all local regulations are followed. Additionally, as timber related products are key for the manufacture of PMI products, any change to the regulatory framework of timber and the use of forest resources might impact PMI's entire value chain. This issue is assessed as part of the deforestation risk assessment of PMI entire value chain. PMI considered the regulation in countries where pulp and paper products are sourced. The assessment included the regulatory landscape of the pulp and paper industry as one of the variables to assess the potential risk of a given country. This information was used to prioritize pulp and paper suppliers who operate in higher risk countries. Additionally, the Monitoring Framework for Sustainable Curing

Fuels also considers compliance with local regulations such as the need for permits, registrations etc. The results are used to plan strategies of action with the suppliers. This is a current issue.

### **Climate change**

#### **Relevance & inclusion**

Relevant, always included

#### **Please explain**

This issue is important to PMI because of its commitment to decrease its carbon footprint by 30% across our entire value chain by 2020. Based on the 2010 baseline, agriculture accounts for 38% of PMI's carbon footprint, thus the PMI Leaf department in charge of sourcing tobacco, set goals and developed strategic initiatives to reduce GHG emissions. To assess this issue, the Monitoring Framework for Sustainable Leaf Curing Fuel was developed as part of the efforts to contribute to PMI's GHG emission reduction target. Additionally, the deforestation risk assessment was also developed considering the effect of deforestation in climate change. The results of the assessment along with the overall company risk assessment inform the strategies to advance towards PMI's carbon emission reduction goal. This is a current issue.

### **Tariffs or price increases**

#### **Relevance & inclusion**

Relevant, always included

#### **Please explain**

This issue is important for PMI because any tariff or price increase can have a negative impact on the profitability of the business, thus affecting the entire value chain. This issue is assessed as part of the company wide risk assessment and it is part of procurement and supplier management. PMI maintains warehouses for all direct materials to be able to mitigate this potential impact, additionally, PMI has a diversified strategy where sourcing is spread across different areas. PMI also aims to develop long term relationships with suppliers and to have a strong and stable supplier base. The results of assessing this issue could inform procurement strategies. This is a current issue.

### **Loss of markets**

#### **Relevance & inclusion**

Relevant, always included

#### **Please explain**

This is an important issue for PMI because the loss of markets might have a negative impact on profits, therefore affecting PMI's entire value chain. This issue is assessed as part of the company wide risk assessment and it is part of procurement and supplier management. PMI maintains warehouses for all direct materials to be able to mitigate this potential impact, additionally, PMI has a diversified strategy where sourcing is spread across different areas. PMI also aims to develop long

term relationships with suppliers and to have a strong and stable supplier base. The results of assessing this issue could inform procurement strategies. This is a current issue.

### **Brand damage related to forest risk commodities**

#### **Relevance & inclusion**

Relevant, always included

#### **Please explain**

This is an important issue for PMI because the risk of brand damaged due to PMI sourcing of materials associated with deforestation can affect sales and hence affect revenue and profits, impacting the entire value chain. This issue is assessed indirectly through assessing PMI's deforestation risks. The Monitoring Framework for Sustainable Curing Fuels is a response to deforestation risks. PMI plans to continue engaging with tobacco leaf suppliers to manage the potential risk of brand damage as this is a current issue. As a result of the deforestation assessment, PMI is exploring actions to be taken to mitigate risks. Additionally, to address the potential impacts from brand damage and other risks, in 2017 PMI published its Responsible Sourcing Principles. These principles provide process and performance requirements applicable to all suppliers doing business with its. Through their application, PMI's goal is to achieve measurable, tangible improvements in our supply chain.

#### **Corruption**

#### **Relevance & inclusion**

Relevant, always included

#### **Please explain**

This issue is important to PMI because it can affect the operations of PMI in certain countries where corruption is an issue. This issue is assessed as part of the first deforestation risk assessment of PMI entire value chain developed in 2017, PMI considered corruption in countries where pulp and paper products are sourced. The assessment included Transparency International Corruption Index as one of the variables to assess the potential risk of a given country. As a result of the assessment, pulp and paper suppliers who operate in higher risk countries were prioritized. PMI is exploring how to further engage and collaborate with pulp and paper suppliers sourcing from countries that were ranked as high risk. This is an emerging issue. Additionally, to address the potential impacts from brand damage and other risks, in 2017 PMI published its Responsible Sourcing Principles. These principles provide process and performance requirements applicable to all suppliers doing business with PMI. Through their application, PMI's goal is to achieve measurable, tangible improvements in its supply chain.

#### **Social impacts**

#### **Relevance & inclusion**

Relevant, always included

**Please explain**

This issue is important to PMI because Continuously improving PMI's social impact within its operations and beyond is essential to PMI's long-term success. This issue was assessed as part of the first deforestation risk assessment of PMI entire value chain, developed in 2017. PMI considered social impacts such as the presence of mechanisms within the forestry sector to guarantee indigenous populations' rights, in countries where pulp and paper products are sourced. It is expected that this will continue to be part of future deforestation risk assessments. The result of the country assessment was used to prioritize countries and pulp and paper suppliers for further engagement. PMI is exploring how to further engage and collaborate with pulp and paper suppliers sourcing from countries that were ranked as high risk. This is an emerging issue. Additionally, to address the potential social impacts and other risks, in 2017 PMI published its Responsible Sourcing Principles. These principles provide process and performance requirements applicable to all suppliers doing business with PMI. Through their application, PMI's goal is to achieve measurable, tangible improvements in its supply chain.

**Other, please specify****Relevance & inclusion**

Please select

**Please explain****F2.1c****(F2.1c) Which of the following stakeholders are considered in your organization's forests-related risk assessments?****Customers****Relevance & inclusion**

Relevant, always included

**Please explain**

Customers are included because they are increasingly expecting brands to manage their environmental impacts, specially related to deforestation and climate change, failure to respond to PMI's customers' concerns can negatively impact its business. Failure to do so can result in brand damage, which in turn can result in a decrease in sales. Therefore, customers are considered because they are one of the drivers for PMI to assess its deforestation risks across the entire value chain. To include customers, PMI follows the results of consumer surveys regarding sustainability.

**Employees****Relevance & inclusion**

Relevant, always included

**Please explain**

Employees are included because they are the ones driving the implementation of PMI's goals and targets, they are also the ones managing suppliers. In the development of the deforestation risk assessment of PMI's entire value chain, all relevant employees were directly engaged throughout the development of the assessment. Engagement was done through meetings, electronic communication to receive information from relevant employees, and they provided feedback to the results of the assessment. Employees included members of a variety of teams such as procurement, health and safety, corporate affairs, agricultural programs among others. For example, employees of corporate affairs focus on risks related to reputation and brand damage, whereas employees from the procurement team focus on ensuring supply of materials and on maintaining strong supplier relationships.

### **Investors**

#### **Relevance & inclusion**

Relevant, always included

#### **Please explain**

Investors are included because as one of the most important stakeholders they have to be informed on the performance of the company in all aspects. The results of the risk assessment are included in PMI's annual sustainability report which is communicated to investors. Additionally, we engage with stakeholders on an ongoing basis in a number of ways. In doing so, we will be guided by AccountAbility's Stakeholder Engagement Standard: AA1000.

### **Local communities**

#### **Relevance & inclusion**

Relevant, always included

#### **Please explain**

Local communities of the places we operate are included because they are crucial to PMI's long term success. They are engaged directly and through PMI's tobacco leaf suppliers, for example, for the development of the forest risk maps, local farmers and other stakeholders are interviewed. In 2017 forest risk maps were developed for Pakistan, Philippines, Malawi, Mozambique and Argentina. In 2016, maps were developed for Indonesia and Tanzania. For the development of the Argentina map, for example, a local NGO and farmers were interviewed. Additionally, as part of the Monitoring Framework for Sustainable Curing Fuels, all of PMI's tobacco leaf suppliers must have a stakeholder engagement plan where local communities are included when relevant.

### **NGOs**

#### **Relevance & inclusion**

Relevant, always included

#### **Please explain**

NGO's are included because they can often provide support and technical expertise to manage PMI's deforestation risks. The deforestation risk assessment used information developed by NGO's to inform the assessment of both pulp and paper suppliers and countries from where PMI sources pulp and paper products. This included reports of unsustainable practices, transparency rankings among others. Additionally, as part of the Monitoring Framework for Sustainable Curing Fuels, in some cases, NGOs work directly with PMI tobacco leaf suppliers to help them implement initiatives to reach the targets on sustainability and traceability. Additionally, they are engaged directly, for example, for the development of the forest risk maps, experts and local NGO's are sometimes interviewed. In 2017 maps were developed for Pakistan, Philippines, Malawi, Mozambique and Argentina. In 2016, maps were developed for Indonesia and Tanzania For the development of the Argentina map, for example, a local NGO and farmers where interviewed.

### **Other forest risk commodity users/producers at a local level**

#### **Relevance & inclusion**

Relevant, always included

#### **Please explain**

Other users are included because deforestation impacts at the regional or local level are not isolated, deforestation has several drivers and is important for PMI to understand other users in order to define PMI's own impact. Not including other users might affect the estimation of PMI's own impact. As part of the deforestation risk assessment of PMI's entire value chain, all countries from which PMI sources pulp and paper products where evaluated through a qualitative assessment. The country assessment included the status of the entire pulp and paper industry, therefore, other users/producers are considered. Additionally, when analyzing the impact of tobacco farming in land use change, the analysis included the impact on deforestation from land use of other agricultural commodities.

### **Regulators**

#### **Relevance & inclusion**

Relevant, always included

#### **Please explain**

Regulators are included because they define the rules under which PMI operates, there is a risk that regulations might change affecting PMI's operations. They were included as part of the Monitoring Framework for Sustainable Leaf Curing Fuels, all of PMI's tobacco leaf suppliers must have a stakeholder engagement plan where relevant regulators are included.

### **Suppliers**

#### **Relevance & inclusion**

Relevant, always included

#### **Please explain**

Tobacco leaf suppliers are included because they are the ones who directly contract tobacco farmers, they are the ones who ensure PMI targets and standards are met, if tobacco leaf suppliers are not considered, there is a risk that PMI cannot achieve its targets. PMI works closely with tobacco leaf suppliers in the development of supplier-specific forest risk maps. Tobacco leaf suppliers provide relevant information related to their operations, and once the forest risk map is developed, tobacco leaf suppliers provide their input so the final forest risk map is a collaborative effort and has been approved by the tobacco leaf suppliers. Additionally PMI is working to strengthen the engagement of suppliers of pulp and paper products to validate the findings of the deforestation risk assessment related to such products.

**Other stakeholders, please specify**

**Relevance & inclusion**

Please select

**Please explain**

**F3. Risks and opportunities**

**F3.1**

**(F3.1) Have you identified any inherent forests-related risks with the potential to have a substantive financial or strategic impact on your business?**

	Risk
Timber	Yes, both in direct operations and the rest of our value chain
Palm Oil	<Field Hidden>
Cattle Products	<Field Hidden>
Soy	<Field Hidden>
Other - Rubber	<Field Hidden>
Other	<Field Hidden>

**F3.1a**

**(F3.1a) How does your organization define substantive impact on your business?**

In relation to substantive change, we refer to materiality - material issues are identified in a multidisciplinary way and include those which:

- have the highest potential impact and a realistic probability of occurrence;
- are most relevant to our enterprises and geographic locations;
- are most important to our stakeholders.

In 2020+ risk forecasting terms, higher level risks are defined as those with a potential impact in excess of US\$5M or a raw material impact in excess of 1000 metric tonnes of tobacco leaves. These apply to both our direct operations and our tobacco supply chain.

Over the last couple of years, we have been expanding our forest programs by first assessing current and future forest-related risks more broadly across our value chain. These risks include availability of forest resources, and impact on deforestation.

### **F3.1b**

---

**(F3.1b) For your disclosed forest risk commodity(ies), provide details of risks identified with the potential to have a substantive financial or strategic impact on your business, and your response to those risks.**

#### **Forest risk commodity**

Timber

#### **Type of risk**

Physical

#### **Geographical scale**

Global

#### **Where in your value chain does the risk driver occur?**

Supply chain

#### **Primary risk driver**

Increased ecosystem vulnerability

#### **Primary potential impact**

Reduction or disruption in production capacity

#### **Company-specific description**

Timber products are key materials for the production of PMI products. For example, firewood is used for tobacco curing, while paper is used for the production of cigarettes and is also used in all packaging. Increased ecosystem vulnerability in the form of increased deforestation rates in some parts of the world might decrease the availability of timber products in the future.

This can impact PMI's ability to manufacture its products if PMI firewood becomes more expensive, or pulp and paper products such as fine papers or acetate tow needed for the manufacture of cigarettes become more expensive. Such increase in our production costs might affect our revenue.

**Timeframe**

>6 years

**Magnitude of potential impact**

Medium-high

**Likelihood**

More likely than not

**Potential financial impact****Explanation of financial impact**

In 2020+ risk forecasting terms, higher level risks are defined as those with a potential impact in excess of US\$5M or a raw material impact in excess of 1000 metric tons of tobacco leaves. These apply to both our direct operations and our tobacco supply chain. Over the last couple of years, we have been expanding our forest programs by first assessing current and future forest-related risks more broadly across our value chain. These risks include availability of forest resources, and impact on deforestation. If we assume that the risk of increased ecosystem vulnerability will have an impact on an increase of production costs as defined by our definition of substantive impact of US\$5M, for example, for the case of firewood, an impact of this size would represent a 16% increase in production cost.

**Primary response to risk**

Engagement with suppliers

**Description of response**

In 2016 PMI started developing a Monitoring Framework for Sustainable Leaf Curing Fuels that tobacco leaf suppliers should comply with and that should be audited by a third party by 2020. The Monitoring Framework requires tobacco leaf suppliers to ensure that 100% of the biomass (for example, firewood or wood pellets) used for tobacco curing is sustainable and traceable. The Monitoring Framework is an ongoing process and it is being implemented in all countries where PMI sources Flue Cured Virginia tobacco. PMI actively engages with tobacco leaf suppliers to support them in the implementation of activities to comply with the Monitoring Framework. The implementation of the Monitoring Framework and the associated supplier engagement is expected to address the risk of increased ecosystem vulnerability by providing an understanding of the deforestation risk associated with tobacco curing through the development of forest risks maps. Tobacco leaf suppliers then have to develop a forest risk mitigation plan to manage the identified deforestation risks. PMI considers that the response has been effective and that tobacco leaf suppliers who have developed forest risks maps are equipped to develop risk mitigation plans. Currently, above 65% of the curing fuel including biomass, is sustainable and traceable, which has decreased the risk and is expected to prevent future impacts.

**Cost of response**

3000000

### **Explanation of cost of response**

The cost of the response is the investment PMI has made in the design and implementation of the Monitoring Framework and associated activities. Based on our internal records, we estimate that the cost of the implementation of the Monitoring Framework amounts to roughly 3 million USD annually, equivalent to 10% of the spending on wood fuel by the farmers supplying FCV tobacco volume requirements. It is expected that the same level of associated costs will continue after 2020.

### **Forest risk commodity**

Timber

### **Type of risk**

Regulatory

### **Geographical scale**

Global

### **Where in your value chain does the risk driver occur?**

Supply chain

### **Primary risk driver**

Poor enforcement of regulation

### **Primary potential impact**

Increased production costs

### **Company-specific description**

PMI sources materials from countries known for their limited enforcement of regulation. PMI might be associated with unsustainable materials due to the poor enforcement of regulation in such countries. For example, if protected areas or timber harvest regulations are not enforced and if PMI does not have certainty that regulation designed to ensure sustainability of materials is enforced, PMI has to invest in additional measures when looking for assurance that a material is sustainable in those countries as even if regulation exists, it does not mean that is being enforced. For example, PMI sources tobacco leaves from Indonesia, Philippines, Malawi, among other countries. Based on the development of country-specific forest risk maps, we have identified possible deforestation risks in some of those countries. Even though forests are protected by law, this is not always enforced, therefore, PMI's production costs increase due to the additional measures PMI is implementing to ensure all biomass used for fuel is sustainable.

### **Timeframe**

Current - up to 1 year

### **Magnitude of potential impact**

Medium-high

**Likelihood**

Very likely

**Potential financial impact****Explanation of financial impact**

In 2020+ risk forecasting terms, higher level risks are defined as those with a potential impact in excess of US\$5M or a raw material impact in excess of 1000 metric tons of tobacco leaves. These apply to both our direct operations and our tobacco supply chain. Over the last couple of years, we have been expanding our forest programs by first assessing current and future forest-related risks more broadly across our value chain. These risks include availability of forest resources, and impact on deforestation. If we assume that the the risk of poor enforcement of regulation will have an impact on an increase of production costs as defined by our definition of substantive impact of US\$5M, for example, for the case of firewood, an impact of this size would represent a 16% increase in production cost.

**Primary response to risk**

Engagement with suppliers

**Description of response**

In 2016 PMI started developing a Monitoring Framework for Sustainable Leaf Curing Fuels that tobacco leaf suppliers should comply with and that should be audited by a third party by 2020. The Monitoring Framework requires tobacco leaf suppliers to ensure that 100% of the biomass used for tobacco curing is sustainable and traceable. The Monitoring Framework is an ongoing process and it is being implemented in all countries where PMI sources Flue Cured Virginia tobacco (FCV). PMI actively engages with tobacco leaf suppliers to support them in the implementation of activities to comply with the Monitoring Framework. The implementation of the Monitoring Framework and the associated supplier engagement is expected to address the risk of poor enforcement of regulation by requiring tobacco leaf suppliers to ensure that all biomass (for example, firewood, wood pellets, etc.) used as fuel is sustainable. This will then be audited by a third party. PMI considers that the response has been effective and that tobacco leaf suppliers implementing the Monitoring Framework are addressing this risk. Currently, above 65% of the curing fuel including biomass, is sustainable and traceable, which has decreased the risk and is expected to prevent future impacts. Additionally, to address poor enforcement of regulation and other risks, in 2017 PMI published its Responsible Sourcing Principles. These principles provide process and performance requirements applicable to all suppliers.

**Cost of response**

3000000

**Explanation of cost of response**

The cost of the response is the investment PMI has made in the design and implementation of the Monitoring Framework and associated activities. Based on our internal records, we estimate that the cost of the implementation of the Monitoring

Framework amounts to roughly 3 million USD annually, equivalent to 10% of the spending on wood fuel by the farmers supplying FCV tobacco volume requirements. It is expected that the same level of associated costs will continue after 2020.

### **Forest risk commodity**

Timber

### **Type of risk**

Reputational and markets

### **Geographical scale**

Global

### **Where in your value chain does the risk driver occur?**

Supply chain

### **Primary risk driver**

Availability of certified sustainable material

### **Primary potential impact**

Increased production costs

### **Company-specific description**

The industry of specialty papers for cigarette production has a very limited offer of certified materials. Additionally, there is no mature market for certified firewood. These facts, present challenges for PMI to source certified sustainable materials. If PMI is not able to find certified materials such as fine papers or acetate tow that are crucial for the manufacture of cigarettes, PMI will have to strengthen the requirements for suppliers. For the case of firewood, for example, PMI is already requiring tobacco leaf suppliers to ensure firewood is sustainable and traceable, which has increased production costs because PMI has engaged in various activities with the tobacco leaf suppliers.

### **Timeframe**

1-3 years

### **Magnitude of potential impact**

Medium

### **Likelihood**

More likely than not

### **Potential financial impact**

### **Explanation of financial impact**

In 2020+ risk forecasting terms, higher level risks are defined as those with a potential impact in excess of US\$5M or a raw material impact in excess of 1000 metric tons of tobacco leaves. These apply to both our direct operations and our tobacco

supply chain. Over the last couple of years, we have been expanding our forest programs by first assessing current and future forest-related risks more broadly across our value chain. These risks include availability of forest resources, and impact on deforestation. If we assume that the risk limited availability of certified materials will have an impact on an increase of production costs as defined by our definition of substantive impact of US\$5M, for example, for the case of firewood, an impact of this size would represent a 16% increase in production cost.

#### **Primary response to risk**

Engagement with suppliers

#### **Description of response**

Sourcing certified materials provide assurance that the materials are sustainable. For some of the materials sourced by PMI the supply of certified materials is limited. PMI response has been since 2016, to develop a Monitoring Framework for Sustainable Leaf Curing Fuels that tobacco leaf suppliers should comply and that should be audited by a third party by 2020. The Framework requires tobacco leaf suppliers to ensure that 100% of the biomass used for tobacco curing is sustainable and traceable. Then by having a third party auditor, the Monitoring Framework will fill the gap and achieve the same objectives as certified materials. This is an ongoing process and it is being implemented in all countries where PMI sources Flue Cured Virginia tobacco. PMI actively engages with tobacco leaf suppliers to support them in the implementation of activities to comply with the Framework. The implementation of the Framework and the supplier engagement is expected to address the risk of limited availability of certified materials. PMI considers that the response has been effective and that tobacco leaf suppliers implementing the Monitoring Framework are addressing this risk. Currently, above 65% of the curing fuel including biomass, is sustainable and traceable, which has decreased the risk and is expected to prevent future impacts. Audits are expected to begin in 2019. Additionally, in 2017 PMI published its Responsible Sourcing Principles.

#### **Cost of response**

3000000

#### **Explanation of cost of response**

The cost of the response is the investment PMI has made in the design and implementation of the Monitoring Framework and associated activities. Based on our internal records, we estimate that the cost of the implementation of the Monitoring Framework amounts to roughly 3 million USD annually, equivalent to 10% of the spending on wood fuel by the farmers supplying FCV tobacco volume requirements. It is expected that the same level of associated costs will continue after 2020.

---

## **F3.2**

---

**(F3.2) Have you identified any forests-related opportunities with the potential to have a substantive financial or strategic impact on your business?**

	Have you identified opportunities?
Timber	Yes
Palm Oil	<Field Hidden>
Cattle products	<Field Hidden>
Soy	<Field Hidden>
Other - Rubber	<Field Hidden>
Other	<Field Hidden>

### F3.2a

**(F3.2a) For your selected forest risk commodity(ies), provide details of the identified opportunities with the potential to have a substantive financial or strategic impact on your business.**

#### Forest risk commodity

Timber

#### Type of opportunity

Resilience

#### Where in your value chain does the opportunity occur?

Supply chain

#### Primary forests-related opportunity

Improved supply chain engagement

#### Financial incentives

<Field Hidden>

#### Company-specific description & strategy to realize opportunity

To manage our forest risks related to the sourcing of tobacco leaves, in 2016 PMI started developing the Monitoring Framework for Sustainable Leaf Curing Fuels that tobacco leaf suppliers should comply with and that should be audited by a third party by 2020. The implementation of the Monitoring Framework has increased PMI's engagement with tobacco leaf suppliers and has allowed us to closely collaborate with them. This close collaboration is an opportunity to strengthen our working relationship, and foster additional collaboration not only managing forest related risks, but also in other areas that might have a positive impact on our business and share value with society. Because the Monitoring Framework is being implemented with all our tobacco leaf suppliers, who in turn, work with farmers who are the ones curing the tobacco, the scale of this opportunity covers our entire tobacco value chain. PMI's definition of substantial opportunity, mirrors the definition of substantial impact. In 2020+ risk forecasting terms, higher level risks are defined as those with a potential impact in excess of

US\$5M or a raw material impact in excess of 1000 metric tons of tobacco leaves. These apply to both our direct operations and our tobacco supply chain. Therefore, improved supply chain engagement will be a substantial opportunity if it aligns with the stated definition. To realize the opportunity, PMI is working closely with tobacco leaf suppliers by supporting them with technical assistance when they face challenges related to sustainability and traceability. PMI through its regional offices holds in-person meetings with tobacco leaf suppliers to discuss sustainability matters including their progress on sustainability and traceability. PMI also organizes conference calls and meetings as needed to provide technical assistance. For example, PMI is working closely with tobacco leaf suppliers in the Philippines to support them in efforts to increase clarity and shared understanding of current regulations among all tobacco leaf suppliers in the country.

#### **Estimated timeframe for realization**

Current - up to 1 year

#### **Magnitude of potential impact**

Medium-high

#### **Likelihood**

Virtually certain

#### **Potential financial impact**

0

#### **Explanation of financial impact**

Currently, no direct financial benefit is anticipated for the company in relation to the opportunity selected. Instead of a financial impact, the final outcome of this opportunity is that PMI will be able to build a stronger and more resilient value chain and that it will be capable of positioning itself as a leading company collaborating with its suppliers to implement actions that contribute to a more sustainable future. This might change in the future and PMI might foresee a financial benefit aligned with the definition of substantive opportunity.

---

#### **Forest risk commodity**

Timber

#### **Type of opportunity**

Markets

#### **Where in your value chain does the opportunity occur?**

Supply chain

#### **Primary forests-related opportunity**

Driving demand for sustainable materials

#### **Financial incentives**

<Field Hidden>

### **Company-specific description & strategy to realize opportunity**

One of the findings of the deforestation risk assessment of PMI's value chain was that the industry of pulp and paper products specializing in materials for the production of cigarettes is lagging behind in terms of sustainability, compared to other pulp and paper industries such as packaging. PMI as one of the market leaders of the tobacco industry, has an opportunity to drive demand for verified sustainable materials in areas such as acetate tow and fine papers. PMI has not acted in this area yet and is currently analyzing options to realize this opportunity. Options include engagement with suppliers to understand their barriers to produce verified sustainable materials for the tobacco industry. PMI's definition of substantial opportunity, mirrors the definition of substantial impact. In 2020+ risk forecasting terms, higher level risks are defined as those with a potential impact in excess of US\$5M or a raw material impact in excess of 1000 metric tons of tobacco leaves. These apply to both our direct operations and our tobacco supply chain. Therefore, improved supply chain engagement will be a substantial opportunity if it aligns with the stated definition. Additionally, to drive demand for verified sustainable materials, in 2017 PMI published its Responsible Sourcing Principles. These principles provide process and performance requirements applicable to all suppliers doing business with PMI. Through their application, our goal is to achieve measurable, tangible improvements in our supply chain.

### **Estimated timeframe for realization**

4-6 years

### **Magnitude of potential impact**

Medium-high

### **Likelihood**

Likely

### **Potential financial impact**

0

### **Explanation of financial impact**

No direct financial benefit is anticipated for the company in relation to the opportunity selected. Instead of a financial impact, the final outcome of this opportunity is that PMI will be able to build a stronger and more resilient value chain and that it will be capable of positioning itself as a leading company in actions that contribute to a more sustainable future.

---

## **F4. Governance**

---

### **F4.1**

---

**(F4.1) Does your organization have a policy that includes forests-related issues?**

Yes, we have a documented forests policy, but it is not publicly available

**F4.1a**

**(F4.1a) Select the options to describe the scope and content of your policy.**

	Scope	Content	Please explain
Row 1	Selected products only	Commitments beyond regulatory compliance Commitment to transparency Commitment to stakeholder awareness and education Commitment to align with public policy initiatives, e.g. SDGs Description of business dependency on forests Description of forests-related standards for procurement	PMI does not have a stand-alone forest policy, the principles and goals regarding forest-related issues are included in different documents. Our forest policy covers all timber used for curing tobacco in all countries where PMI sources FCV tobacco. Pulp and paper materials are excluded from this policy, however, pulp and paper are covered by our wider sustainability principles. In 2016, started developing a harmonized and verifiable Monitoring Framework for Sustainable Leaf Curing Fuel (referred to as Monitoring Framework) that states four principles to be followed by all tobacco leaf suppliers: Principle 1. Know your fuel source; Principle 2. Be sustainable; Principle 3. Be transparent and replicable; Principle 4. Engage stakeholders. The first version of the Monitoring Framework was finalized in early 2017, and it is expected that an updated version will be rolled out in late 2018 or early 2019. Afterwards, the document will be revised and updated as needed. The Monitoring Framework has requirements that go beyond regulatory compliance, because PMI took a global approach. For example, in Brazil, the regulatory cut-off date to prove that a plantation was not forest and still be considered sustainable is 2008, while the cut-off date for PMI is 2006. The commitment to transparency is reflected in Principle 3. Be transparent and replicable. All tobacco suppliers are required to develop clear Standard Operating Procedures regarding the management of timber used for curing tobacco. Principle 4. Engage stakeholders requires the development of a stakeholder map and a stakeholder engagement plan. In order to ensure the long term availability of the resource, PMI needs to monitor how dependent tobacco curing is on timber fuel. That is why Principle 1. Know your fuel source monitors the different types of fuel and the quantities used by each farmer. Therefore PMI can track and describe our dependency on forests to manufacture our products. Each principle of the Monitoring Framework is organized in criteria, indicators, and underlying requirements, which is expected to serve as our standard for procurement. This will allow us to achieve our targets and monitor our progress in a systematic way globally. In addition to this policy focusing on timber used for tobacco curing, PMI addresses forest issues in a variety of documents that are applied company wide.

**F4.1b**

**(F4.1b) Do you have commodity specific sustainability policy(ies)? If yes, select the options that best describe their scope and content.**

	Do you have a commodity specific sustainability policy?	Scope	Content	Please explain
Timber	Yes	Selected products only	<p>Commitments beyond regulatory compliance</p> <p>Commitment to transparency</p> <p>Commitment to stakeholder awareness and education</p> <p>Commitment to align with public policy initiatives, e.g. SDGs</p> <p>Description of business dependency on forests</p> <p>Description of forests-related standards for procurement</p>	<p>PMI does not have a stand-alone forest policy, the principles and goals regarding forest-related issues are included in different documents. Our forest policy covers all timber used for curing tobacco in all countries where PMI sources FCV tobacco. Pulp and paper materials are excluded from this policy, however, pulp and paper are covered by our wider sustainability principles. In 2016, started developing a harmonized and verifiable Monitoring Framework for Sustainable Leaf Curing Fuel (referred to as Monitoring Framework) that states four principles to be followed by all tobacco leaf suppliers: Principle 1. Know your fuel source; Principle 2. Be sustainable; Principle 3. Be transparent and replicable; Principle 4. Engage stakeholders. First Monitoring Framework was finalized in 2017 and an updated version may be rolled out in 2018 or 2019. The Monitoring Framework has requirements that go beyond regulatory compliance, because PMI took a global approach. For example, in Brazil, the regulatory cut-off date to prove that a plantation was not forest and still be considered sustainable is 2008, while the cut-off date for PMI is 2006. The commitment to transparency is reflected in Principle 3. Be transparent and replicable. All tobacco suppliers are required to develop clear Standard Operating Procedures regarding the management of timber used for curing tobacco. Principle 4. Engage stakeholders requires the development of a stakeholder map and a stakeholder engagement plan. In order to ensure the long term availability of the resource, PMI needs to monitor how dependent tobacco curing is on timber fuel. That is why Principle 1. Know your fuel source monitors the different types of fuel and the quantities used by each farmer. Therefore PMI can track and describe our dependency on forests to manufacture our products. Each principle of the Monitoring Framework is organized in criteria, indicators, and underlying requirements, which is expected to serve as our standard for procurement. This will allow us to achieve our targets and monitor our progress in a systematic way globally. In addition to this policy focusing on timber used for tobacco curing, PMI addresses forest issues in a variety of documents that are applied company wide. We have more formally committed to water stewardship through our environmental commitment to be published in Q3 2018</p>
Palm Oil	<Field Hidden>	<Field Hidden>	<Field Hidden>	<Field Hidden>
Cattle Products	<Field Hidden>	<Field Hidden>	<Field Hidden>	<Field Hidden>

	Do you have a commodity specific sustainability policy?	Scope	Content	Please explain
Soy	<Field Hidden>	<Field Hidden>	<Field Hidden>	<Field Hidden>
Other - Rubber	<Field Hidden>	<Field Hidden>	<Field Hidden>	<Field Hidden>
Other	<Field Hidden>	<Field Hidden>	<Field Hidden>	<Field Hidden>

## F4.2

### (F4.2) Is there board-level oversight of forests-related issues within your organization?

Yes

#### F4.2a

### (F4.2a) Identify the position(s) of the individual(s) on the board with responsibility for forests-related issues.

Position of individual	Please explain
Board/Executive board	In 2017, the highest level of direct oversight for forest-related issues within PMI lied with the Product Innovation and Regulatory Affairs Committee of the Board of Directors. The Committee comprised 9 out of the 13 Directors and was chaired by Harold Brown (Counselor, Center for Strategic and Int. Studies). The other members of the Committee were at March 29, 2018: - Massimo Ferragamo, Chairman, Ferragamo - Werner Geissler, Operating Partner, Advent Int - Jun Makihara, Retired Businessman - Sergio Marchionne, CEO, Fiat Chrysler Automobiles - Kalpana Morparia, CEO, J.P. Morgan Chase - Frederik Paulsen, Chairman, Ferring Group - Robert B. Polet, Chairman, Rituals Cosmetics EBV - Stephen M. Wolf, Managing Partner, Alpilles In 2018, as part of our continued focus on sustainability, the Board has added oversight of our sustainability strategies and performance to the charter of the Board's Nominating and Corporate Governance Committee that advises the Board on sustainability matters.

#### F4.2b

### (F4.2b) Provide further details on the board's oversight of forests-related issues.

	Frequency that forests-related issues are a scheduled agenda item	Governance mechanisms into which forests-related issues are integrated	Please explain
Row 1	Scheduled - some meetings	<ul style="list-style-type: none"> <li>Monitoring implementation and performance</li> <li>Overseeing acquisitions and divestiture</li> <li>Overseeing major capital expenditures</li> <li>Providing employee incentives</li> <li>Reviewing and guiding annual budgets</li> <li>Reviewing and guiding business plans</li> <li>Reviewing and guiding corporate responsibility strategy</li> <li>Reviewing and guiding major plans of action</li> <li>Reviewing and guiding risk management policies</li> <li>Reviewing and guiding strategy</li> <li>Reviewing innovation / R&amp;D priorities</li> <li>Setting performance objectives</li> </ul>	<p>The Board established Committees to assist with the performance of its responsibilities and is regularly informed of the company's performance, future plans, and significant issues affecting the business. The Board meets several times per year with additional meetings held as necessary. The Board of Directors believes that environmental, social, and governance (ESG) factors relevant to the company's business are important to PMI's long-term success, and in 2017, the Product Innovation and Regulatory Affairs Committee was responsible for reviewing and monitoring PMI's programs on societal alignment issues, including forest related issues with PMI's CEO and the VP Operations. Since 2018, the Board's Nominating and Corporate Governance Committee is responsible to oversee our sustainability strategies and performance, and advises the Board on sustainability matters. The four other committees (Audit, Compensation and Leadership Development, Finance, Product Innovation and Regulatory Affairs) assist the board with a full range of activities that also include sustainability related matters.</p>

### F4.3

**(F4.3) Below board level, provide the highest-level management position(s) or committee(s) with responsibility for forests-related issues.**

Name of the position(s) and/or committee(s)	Responsibility	Frequency of reporting to the board on forests-related issues	Please explain
Other C-Suite Officer, please specify (Senior Vice President, Operations)	Both assessing and managing forests-related risks and opportunities	More frequently than quarterly	Forest-related issues are embedded within our overall business strategy, our Guidebook for Success (Code of Conduct) and our Responsible Sourcing Principles. It's integrated into normal business activities and forms part of our annual Long Range Planning process which reviews and sets business direction. In 2017, the strategy was developed/reviewed based on prior year performance, sustainability commitments and objectives, regulatory/external developments, risk/opportunity assessments, stakeholder interest and business changes, through functional management teams up to our Senior Management Team (Management Board). Our Senior VP of Operations is a member of PMI's Senior Management Team (Management Board); in 2017 he reported to PMI's Chief Executive Officer and was delegated with operational responsibility. In 2017, the SVP Operations was responsible for reviewing and monitoring PMI's objectives, strategies and action plans related to forest issues with the CEO and reported to the Prod. Innovation and Regulatory Affairs Committee of the Board of Directors. Currently, our Senior Management Team is responsible for reviewing sustainability matters, including water-related issues – strategy, key programs, and budget — through a cross-functional representation, coordinated by the Sustainability Team led by the Vice President Social & Economic Affairs, who reports to the President External Affairs & General Counsel, a member of PMI's Senior Management Team.
Sustainably committee	Both assessing and managing forests-related risks and opportunities	More frequently than quarterly	Currently, our Senior Management Team is responsible for reviewing sustainability matters, including forest-related issues – strategy, key programs, and budget — through a cross-functional representation, coordinated by the Sustainability Team led by the Vice President Social & Economic Affairs, who reports to the President External Affairs & General Counsel, a member of PMI's Senior Management Team. The Sustainability Team strives to equip our Company with the relevant know-how and expertise in view of the changing nature of our business. From an operational perspective, the Sustainability Team manages and coordinates our sustainability work across PMI functions and regions seeking to ensure it is embedded at all levels of the organization. Finally, three cross-functional working groups have been created to manage environmental, social and reporting matters that are overseen by committees composed of senior function heads.

#### F4.4

**(F4.4) Do you provide incentives to C-suite employees or board members for the management of forests-related issues?**

Yes

**F4.4a**

**(F4.4a) What incentives are provided to C-Suite employees or board members for the management of forests-related issues?**

	Who is entitled to benefit from these incentives?	Indicator for incentivized performance	Please explain
Monetary reward	Corporate executive team Chief Executive Officer (CEO) Other, please specify (Sustainability Managers, Employees) <i>Management Group, Sustainability Manager</i>	Achievement of commitments and targets	The Compensation and Leadership Development Committee consists entirely of non-management directors, all of whom our Board has determined are independent within the meaning of the listing standards of the New York Stock Exchange. The Committee determined the 2017 cash incentive award performance rating based on 2017 results versus performance metrics pre-established by the Committee. Metrics included performance on key strategic initiatives, one being “rapid progress towards establishing credibility and trust to accelerate the realization of our vision of a smoke-free world and our progress towards achieving our sustainability objectives and commitments”. Our carbon footprint reduction targets are part of our sustainability objectives and commitments. The executive compensation awards are in accordance with the PMI Performance Incentive Plan approved by PMI shareholders. Monetary reward 1) Chief Executive Officer (CEO) Our CEO specifically covers EHS results in the assessment of our annual company-wide performance that is reviewed by the Compensation and Leadership Development Committee of the Board of Directors. Accordingly, these results are included in our overall performance rating which determines the cash bonuses for the management group and other eligible employees. Executive management covering EHS topics are specifically appraised each year for performance against targets. 2) Management group Executive management covering EHS topics are specifically appraised each year for performance against targets. The assessment of Environment and Health and Safety (EHS) results directly influences the annual performance rating of our SVP Operations and certain members of our Management Team. This covers the annual cash incentive compensation and long term restricted stock incentive compensation elements for those roles. 3) All employees Specific company awards such as the CEO Award and Recognition for Excellence Awards, which are either cash or stock, are available for Energy Managers, EHS Managers, project teams and other employees who are responsible for forest related initiatives.

	Who is entitled to benefit from these incentives?	Indicator for incentivized performance	Please explain
Recognition (non-monetary)	Other, please specify (All employees)	Achievement of commitments and targets	Behavior change related indicator: annually many affiliates continued to perform voluntary awareness and promotion campaigns/ programs in order to increase employees' active participation in EHS programs and to make carbon footprint reduction part of the company's culture. Awards and recognition for best practices form a core element of such campaigns.
Other non-monetary reward	No one is entitled to these incentives	Please select	

## F5. Business strategy

### F5.1

**(F5.1) Are forests-related issues integrated into any aspects of your long-term strategic business plan, and if so how?**

	Are forests-related issues integrated?	Long-term time horizon (years)	Please explain
Long-term business objectives	Yes, forests-related issues are integrated	11-15	In 2016, we worked with Business for Social Responsibility (BSR) to identify the areas that are most significant to both our business sustainability and to our stakeholders and prioritized them. That analysis also highlighted areas of opportunity and risk, emerging themes, and gaps for management action. The analysis consisted of a structured review and engagement process, carried out by BSR and involving PMI's functional leaders and internal subject matter experts as well as external stakeholders. It considered both our current business and changes driven by our vision of a smoke-free future. The analysis helped us to focus on where we need to prioritize and allocate resources to mitigate negative impacts and create opportunities for wider societal value, with product harm reduction the fundamental premise of our strategy. In the 2016 materiality matrix, "Commodity-driven deforestation and biodiversity" was considered as an important element for our business and we are working with our suppliers to monitor, comply, and manage this issue. We plan to update this analysis in 2018 and share the results in our 2018 Sustainability Report. We identified additional areas from a risk management perspective, including good agricultural and labor practices in tobacco farming and the need for climate change mitigation and related action throughout the value chain. We also need to anticipate and

	Are forests-related issues integrated?	Long-term time horizon (years)	Please explain
			manage the supply chain risks related to our non-tobacco materials, especially as our product portfolio now increasingly includes electronic devices. Our ambition is to turn these strategic risks into opportunities to add value. The time horizon was chosen because PMI business strategy considers the transition to a smoke free world. Additionally, we developed Science Based Targets to be accomplished by 2030 and 2040.
Strategy for long-term objectives	Yes, forests-related issues are integrated	11-15	Sustainable tobacco production is key for PMI and the company has set goals and developed strategic plans to reduce greenhouse gas emissions from tobacco curing as well as to tackle the risk of deforestation. All of which has been integrated in our strategy for long-term objectives through the following three strategic initiatives: ♣ Reduce the fuel consumption rate via curing efficiency improvement and curing barn optimization programs; ♣ Move from unsustainable to sustainable curing fuel sources; ♣ Encourage fuel switching to less polluting fuels and the use of biomass as an alternative to unsustainable wood or fossil fuels, where appropriate. For example, to implement the strategic initiative to move from unsustainable to sustainable curing fuel sources, PMI has adopted a Global Roadmap for sustainable firewood, which includes the following three global targets: 1. No Old Growth Forest cut 2. Renewable sources/Self-sufficient firewood 3. Full traceability The global roadmap for sustainable firewood provides a timeline for the achievement of the three above targets, the set timeline for its achievement is until 2020. The time horizon was chosen because PMI business strategy considers the transition to a smoke free world. Additionally, we developed Science Based Targets to be accomplished by 2030 and 2040. Furthermore, in 2016 PMI started developing a harmonized and verifiable Monitoring Framework for Sustainable Leaf Curing Fuel to monitor the progress towards our global targets. The framework is composed of four principles. Tobacco leaf suppliers are implementing the Monitoring Framework and they will be audited by a third party by 2020. The Monitoring Framework is ongoing process and it is being implemented in all countries where PMI sources Flue Cured Virginia tobacco. Additionally, in 2017 PMI published its Responsible Sourcing Principles. These principles provide process and performance requirements applicable to all suppliers doing business with PMI. Through their application, our goal is to achieve measurable, tangible improvements in our supply chain.
Financial planning	Yes, forests-related issues are integrated	11-15	Sustainable tobacco production is key for PMI and the company has set goals and developed strategic plans to reduce greenhouse gas emissions from tobacco curing as well as to tackle the risk of deforestation. As PMI is working towards achieving these goals, human and financial resources are allocated into long-term financial planning for forest related issues. For example, since 2016 PMI developed a Monitoring Framework for Sustainable Leaf Curing Fuels that tobacco leaf suppliers should comply with and that should be audited by a third party by 2020. The Monitoring Framework requires tobacco leaf suppliers to ensure that 100% of the biomass used for tobacco curing is

	Are forests-related issues integrated?	Long-term time horizon (years)	Please explain
			sustainable and traceable. The Monitoring Framework is an ongoing process and it is being implemented in all countries where PMI sources Flue Cured Virginia tobacco. Since its design, careful financial planning including actions, and resources have been allocated to facilitate the achievement of PMI's forest-related objectives. In very challenging markets such as Brazil, PMI is working with tobacco leaf suppliers to explore options to ensure long-term sustainable supply of firewood. This includes efforts in researching and forecasting potential costs of transforming the entire supply chain of firewood. Therefore, PMI is including forest related issues in the current financial planning and is also exploring how forest related issues could impact financial planning in the long term in different markets.

## F6. Implementation

### F6.1

**(F6.1) Has your organization made a public commitment to reduce or remove deforestation and/or forest degradation from its direct operations and/or supply chain?**

Yes

#### F6.1a

**(F6.1a) Has your organization endorsed any of the following initiatives as part of its public commitment to reduce or remove deforestation and/or forest degradation?**

Please select

#### F6.1b

**(F6.1b) Provide details on your public commitment(s), including the description of specific criteria, coverage, and actions.**

**Commodity coverage**

Timber

**Criteria**

Other, please specify (No old growth forest cut)

## Operational coverage

Supply chain

### % of total production/ consumption covered by commitment

61-70%

### Commitment timeframe

2020

### Please explain

Sustainable tobacco production is key for PMI and the company has set goals and developed strategic plans to reduce greenhouse gas emissions from tobacco curing as well as to tackle the risk of deforestation. All of which has been integrated in our strategy for long-term objectives through the following three strategic initiatives: ♣ Reduce the fuel consumption rate via curing efficiency improvement and curing barn optimization programs; ♣ Move from unsustainable to sustainable curing fuel sources; ♣ Encourage fuel switching to less polluting fuels and the use of biomass as an alternative to unsustainable wood or fossil fuels, where appropriate. For example, to implement the strategic initiative to move from unsustainable to sustainable curing fuel sources, PMI has adopted a Global Roadmap for sustainable firewood, which includes the following three global targets: 1. No Old Growth Forest cut 2. Renewable sources/Self-sufficient firewood 3. Full traceability The global roadmap for sustainable firewood provides a timeline for the achievement of the three above targets, the set timeline for its achievement is until 2020. The time horizon was chosen because PMI business strategy considers the transition to a smoke free world. Additionally, we developed Science Based Targets to be accomplished by 2030 and 2040. Furthermore, in 2016 PMI started developing a harmonized and verifiable Monitoring Framework for Sustainable Leaf Curing Fuel to monitor the progress towards our global targets. The framework is composed of four principles. Tobacco leaf suppliers are implementing the Monitoring Framework and they will be audited by a third party by 2020. The Monitoring Framework is ongoing process and it is being implemented in all countries where PMI sources Flue Cured Virginia tobacco. PMI's cut-off date for non conversion is 2006.

---

## F6.2

---

**(F6.2) Did you have any quantified targets for increasing sustainable production and/or consumption of your disclosed commodity(ies) that were active during the reporting year?**

Yes

### F6.2a

---

**(F6.2a) Provide details of your target(s) for increasing sustainable production and/or consumption of the disclosed commodity(ies), and progress made.**

**Target reference number**

Target 1

**Forest risk commodity**

Timber

**Form of commodity covered**

Wood-based bioenergy

**Type of target**

Traceability

**Coverage**

Direct operations and supply chain

**Traceability point**

Plantation

**Third-party certification scheme**

<Field Hidden>

**Start year**

2014

**Start figure**

0%

**Target year**

2020

**Target**

100%

**% achieved**

31-40%

**Please explain**

PMI has adopted a Global Roadmap for sustainable firewood, which includes the following three global targets: 1. No Old Growth Forest cut 2. Renewable sources/Self-sufficient firewood 3. Full traceability The global roadmap for sustainable firewood provides a timeline for the achievement of the three above targets, the set timeline for its achievement is until 2020. PMI is currently implementing a harmonized and verifiable Monitoring Framework for Sustainable Leaf Curing Fuel to monitor the progress towards our global targets. The monitoring framework is composed of four principles, and Principle 2 “Be

Sustainable” focuses on sustainability and traceability of the fuel source. The purpose is to ensure that all origins switch to use fuels of a demonstrated sustainable source which are proven to be sustainably managed (in accordance with the PMI defined criteria of sustainable wood fuel). One of the indicators addresses traceability directly stating that all the wood-fuel used for tobacco curing activities should be traceable to the source with supported documentation. This means that information should be provided for all Farmers/curing centers. Documentation should be available annually. Documentation is required for auditing purposes and includes purchase receipts, or a verification report including evidence of the fuel source (for example, firewood, wood pellets, etc.) and amounts consumed. PMI plans to achieve this target by implementing the traceability indicator as stated in the Monitoring Framework (Indicator 2.1 Curing fuel is fully traceable to the source supported by documentation) and subjecting the compliance of tobacco leaf suppliers to a third party audit. Additionally, PMI is working closely with tobacco leaf suppliers to help them achieve the 100% traceability target. For example, in Pakistan, PMI is planning to manage a plantation that will provide firewood to its farmers. This will ensure 100% traceability to the plantation; similar approaches are being explored in other countries.

---

**Target reference number**

Target 2

**Forest risk commodity**

Timber

**Form of commodity covered**

Wood-based bioenergy

**Type of target**

Sustainable procurement standard

**Coverage**

Direct operations and supply chain

**Traceability point**

<Field Hidden>

**Third-party certification scheme**

<Field Hidden>

**Start year**

2014

**Start figure**

21-30%

**Target year**

2020

**Target**

100%

**% achieved**

61-70%

**Please explain**

Sustainable tobacco production is key for PMI and the company has set goals and developed strategic plans to reduce greenhouse gas emissions from tobacco curing as well as to tackle the risk of deforestation. The 3 strategic initiatives are: ▪ Reduce the fuel consumption rate via curing efficiency improvement and curing barn optimization programs; ▪ Move from unsustainable to sustainable curing fuel sources; ▪ Encourage fuel switching to less polluting fuels and the use of biomass as an alternative to unsustainable wood or fossil fuels where appropriate. PMI has adopted a Global Roadmap for sustainable firewood, which includes the following three global targets: 1. No Old Growth Forest cut 2. Renewable sources/Self-sufficient firewood 3. Full traceability The global roadmap for sustainable firewood provides a timeline for the achievement of the three above targets, the set timeline for its achievement is until 2020. Biodiversity management and Social and economic development are aspirational sustainability targets to be achieved in the long term beyond 2020. PMI is currently implementing a harmonized and verifiable Monitoring Framework for Sustainable Leaf Curing Fuel (referred to as Monitoring Framework) to monitor the progress towards our global targets. The monitoring framework is composed of four principles, and Principle 2 “Be Sustainable” focuses on sustainability and traceability of the fuel source. The purpose is to ensure that all origins switch to use fuels of a demonstrated sustainable source such as biomass from waste agricultural residues or wood fuel from sources which are proven to be sustainably managed (in accordance with the PMI defined criteria of sustainable wood fuel). Additionally, no coal should be used as a fuel to cure tobacco. PMI is supporting and engaging in capacity building activities with tobacco leaf suppliers to ensure they are able to comply with the Monitoring Framework by 2020 and beyond. PMI considers that the implementation of the Monitoring Framework is proving effective and it estimates that above 65% of the curing fuel is sustainable and traceable.

**F6.3**

**(F6.3) Do you have traceability system(s) in place to track and monitor the origin of your disclosed commodity(ies)?**

	Do you have system(s) in place?
Timber	Yes
Palm Oil	<Field Hidden>

	Do you have system(s) in place?
Cattle products	<Field Hidden>
Soy	<Field Hidden>
Other - Rubber	<Field Hidden>
Other	<Field Hidden>

## F6.3a

### (F6.3a) Provide details on the level of traceability your organization has for your disclosed commodity(ies).

	% of total production/consumption volume traceable	Point to which commodity is traceable	Description of traceability system	Exclusions	Description of exclusion
Timber	31-40%	Plantation	<p>PMI is currently implementing a harmonized and verifiable monitoring framework to allow monitoring of progress towards our goals of the sustainable leaf curing fuel roadmap. The monitoring framework is composed of four principles, and Principle 2 focuses on sustainability and traceability of the source. One of the indicators addresses traceability directly stating that all the fuel used for tobacco curing activities should be traceable to the source with supported documentation. This means that information should be provided for all Farmers/curing centers. Documentation should be available annually. This will help PMI to identify and report unsustainable sources of fuel that would not be compliant with PMI's sustainability objectives. Documentation is required for auditing purposes. Required documentation includes: a. Purchased fuel: documentation consist of the receipts of the fuel purchased by all the farmers (or centers). The receipts should have the name of the biomass vendor and the amount of fuel purchased. For biomass (wood fuel and agro fuel), a verification of the source of the fuel is needed. The verification should be a report that contains evidence of the fuel source (e.g. Pictures of the place where the biomass is obtained). For supplies using intermediaries, a research should provide the information. The methodology for the research should be</p>	Other, please specify (form of commodity)	No traceability system is in place for pulp and paper products.

	% of total production/consumption volume traceable	Point to which commodity is traceable	Description of traceability system	Exclusions	Description of exclusion
			clearly defined and reported as well. If the source of information is from existing literature, it should be from reliable sources such as universities, international organizations (e.g. FAO) and research institutes. b. Farmer and community woodlot, commercial plantations from tobacco leaf suppliers and self-collected biomass: documentation should prove the source of the fuel and the amount of the fuel from a specific source. For example, tobacco leaf suppliers in the Philippines that use wood pellets to cure tobacco are able to show the contract, and receipts of the wood pellets supplier, additionally they can show the correspondent government permits that certifies the plantation from where the timber comes from. PMI did a verification visit in 2017, in 2018 pre audits will take place covering 40% of the volume of purchased tobacco, audits will take place in 2019 and 2020. It is expected that the traceability system will continue beyond 2020.		
Palm Oil	<Field Hidden>	<Field Hidden>	<Field Hidden>	<Field Hidden>	<Field Hidden>
Cattle products	<Field Hidden>	<Field Hidden>	<Field Hidden>	<Field Hidden>	<Field Hidden>
Soy	<Field Hidden>	<Field Hidden>	<Field Hidden>	<Field Hidden>	<Field Hidden>
Other - Rubber	<Field Hidden>	<Field Hidden>	<Field Hidden>	<Field Hidden>	<Field Hidden>
Other	<Field Hidden>	<Field Hidden>	<Field Hidden>	<Field Hidden>	<Field Hidden>

## F6.4

**(F6.4) Do you specify any third-party certification schemes for your disclosed commodity(ies)? Indicate the volume and percentage of your production and/or consumption covered.**  
**Forest risk commodity**

Timber

**Do you specify any certification scheme?**

No

**Third-party certification scheme**

<Field Hidden>

**% of total production/consumption volume certified**

<Field Hidden>

**Form of commodity**

<Field Hidden>

**Volume of production/ consumption certified**

<Field Hidden>

**Metric**

<Field Hidden>

**Please explain**

---

## F6.5

---

**(F6.5) Do you specify any sustainable production/procurement standards for your disclosed commodity(ies), other than third-party certification? Indicate the percentage of production/consumption covered and if you monitor supplier compliance with these standards.**

**Forest risk commodity**

Timber

**Do you specify any sustainability standards?**

Yes

**Type of standard**

Procurement

**Description of standard**

As part of the monitoring framework, PMI developed a set of credible monitoring principles and underlying indicators, requirements and guidance, which should be applied within countries where PMI sources Flue Cured Virginia tobacco in order to develop consistent and simple monitoring measures with regard to sustainable curing fuel. The principles are: 1. Know your fuel source: quantify fuel usage and source of all fuels used for tobacco curing. 2. Be sustainable: ensure that all origins switch to use fuels of a demonstrated sustainable source such as biomass from waste agricultural residues or wood

fuel from sources which are proven to be sustainably managed (in accordance with the PMI defined criteria of sustainable wood fuel). No coal should be used as a fuel to cure tobacco. 3. Be transparent and replicable: have a clear and accessible process and communication that facilitate coordination of actions among different stakeholder. Replicability will ensure that data collection and reporting is consistent to allow for comparisons and compilation of data locally and globally. Moreover it will allow the upscaling of processes that have been demonstrated to be successful. 4. Include stakeholders: to include various stakeholders involved in the FCV tobacco curing process, in order to understand their specific characteristics and situation given the country they are operating. This will allow to adjust monitoring activities according to local situation to ensure proper implementation of activities and data collection. It is expected that in 2018, six countries will undergo a pre-audit and in 2019 audits will be rolled out. Additionally, in 2017 PMI published its Responsible Sourcing Principles. These principles provide process and performance requirements applicable to all suppliers doing business with PMI. Through their application, our goal is to achieve measurable, tangible improvements in our supply chain.

#### **% of total commodity volume covered by standard**

61-70%

#### **Do you have a system in place to monitor compliance with this standard?**

Yes

#### **Type(s) of monitoring system**

Third-party auditing

#### **% of suppliers in compliance with standards**

<10%

#### **Please explain**

The Monitoring Framework is structured in four principles. Each principle is organized in criteria, indicators, and underlying requirements. Principles: What to achieve The principles are the fundamental set of monitoring rules that represent PMI's global roadmap for sustainable curing fuel and its objectives. They govern and help stakeholders in determining the concrete implementation measures of monitoring actions to achieve sustainability. The principles relate to both the goals of the Leaf CO2 reduction strategy and to PMI's GAP (Good Agricultural Practices), and are meant to link them in an overall structured manner. Criteria: How to achieve The criteria are the factors selected to measure the principles. Indicators: How to measure The indicators provide the specific information that is used to measure the criteria for each monitoring principle: the indicators show how to measure the criteria. Many of the criteria have more than one indicator. The indicators may be measured using either quantitative or qualitative methods. Extensive guidance on the indicators and how to measure them is provided. Underlying requirements: What to do The underlying requirements are the measures that need to be implemented to achieve full conformity with the monitoring principles. They are a guide to users of the protocol, to measure progress towards achieving the monitoring principles and to highlight gaps.

## F6.7

**(F6.7) Are you working with your direct suppliers to support and improve their capacity to supply sustainable raw materials?**

	Are you working with direct suppliers?	Supplier engagement approach	Please explain
Timber	Yes, working with direct suppliers	Supplier questionnaires on environmental and social indicators Workshops and training Supplier audits Joint projects Financial support Technical support	PMI is working with 100% of our direct tobacco leaf suppliers from which we source Flue Cured Virginia tobacco In the implementation of the monitoring framework. PMI regional coordinators engage directly with tobacco leaf suppliers in each country to communicate and ensure tobacco leaf suppliers understand the monitoring framework. PMI also provides technical and financial support when tobacco leaf suppliers need support to comply with the principles stated in the monitoring framework. For example, PMI financed the development of country specific forest risk maps. A map has been developed for each country in which farmers use firewood: Philippines, Malawi, Mozambique, Argentina, Indonesia, Pakistan and Tanzania. In 2017 maps were developed for the first time for Argentina, Malawi and the Punjab region in Pakistan, while updates to the maps developed in 2015 were developed for Philippines, Mozambique, Pakistan, Indonesia and Tanzania. The objective was to identify the risk of deforestation of old growth forest or equivalent so the tobacco leaf suppliers can develop a forest risk mitigation plan. The results of the maps has shown the different risks levels and tobacco leaf suppliers are working on the development of forest risk mitigation plans. In 2018 we will update the map from Indonesia.
Palm Oil	<Field Hidden>	<Field Hidden>	<Field Hidden>
Cattle products	<Field Hidden>	<Field Hidden>	<Field Hidden>
Soy	<Field Hidden>	<Field Hidden>	<Field Hidden>
Other - Rubber	<Field Hidden>	<Field Hidden>	<Field Hidden>
Other	<Field Hidden>	<Field Hidden>	<Field Hidden>

## F6.8

**(F6.8) Are you working beyond your first-tier supplier(s) to manage and mitigate forests-related risks?**

	Are you working beyond first tier?	Please explain
Timber	Yes, working beyond first tier	PMI is working with its direct tobacco leaf suppliers in the implementation of the Monitoring Framework for Sustainable Leaf Curing Fuel. Compliance with the framework is only possible with the active engagement of tobacco leaf suppliers with farmers, who are our suppliers beyond first tier. The Monitoring Framework has been rolled-out in every relevant market, and 90% of our tobacco purchases are through direct contract by our leaf operations or our tobacco leaf suppliers. Therefore, in 2017 PMI has engaged with 90% of our tobacco leaf suppliers' contracted farmer base For example, farmers in Indonesia, Philippines, Argentina, Malawi, Mozambique, Brazil, Mexico, Pakistan, to name a few, have received training specific to the Monitoring Framework. In some countries such as the Philippines, after the training focusing on sustainable and traceable firewood, farmers undertake a questionnaire that measures their understanding of the topics covered on the training. Allowing PMI and its first tier tobacco leaf suppliers to plan for the following trainings or for additional support if needed. Additionally, Farmers are visited by Field Technicians several times a year.
Palm Oil	<Field Hidden>	<Field Hidden>
Cattle products	<Field Hidden>	<Field Hidden>
Soy	<Field Hidden>	<Field Hidden>
Other - Rubber	<Field Hidden>	<Field Hidden>
Other	<Field Hidden>	<Field Hidden>

## F6.9

**(F6.9) Do you participate in external initiatives or activities to further the implementation of your policies concerning the sustainability of your disclosed commodity(ies)?**

**Forest risk commodity**

Timber

**Do you participate in activities/initiatives?**

Yes

**Activities**

Involved in industry platforms

## Initiatives

<Field Hidden>

### Please explain

o achieve the targets of 100% sustainable and traceable firewood, PMI is currently engaged in Industry efforts to collaborate with NGO's and other stakeholders in areas such as reforestation, availability of sustainable firewood, among others. This approach is currently being implemented in Brazil and Philippines where all PMI tobacco leaf suppliers come together and plan an industry strategy and collaborate with other stakeholders to achieve sustainability and traceability of fuel sources. For example, in Brazil, the implementation of the Monitoring Framework has triggered all three main tobacco leaf suppliers to form an industry approach to manage sustainability and traceability of firewood. PMI and tobacco leaf suppliers in Brazil are coordinating to develop sustainability study every 4 years from 2019 onwards. Taking an industry approach will help strengthen the efforts to achieve 100% sustainability and traceability of firewood.

---

## F7. Linkages and trade-offs

---

### F7.1

---

**(F7.1) Has your organization identified any linkages or trade-offs between forests and other environmental issues in its direct operations and/or other parts of its value chain?**

Yes

#### F7.1a

---

**(F7.1a) Describe the linkages or trade-offs and the related management policy or action.**

#### Linkage/tradeoff

Linkage

#### Type of linkage/tradeoff

Decreased GHGs emissions

#### Description of linkage/tradeoff

PMI committed to decrease its carbon footprint by 30% across its value chain by 2020 compared to 2010 baseline. Agriculture accounts for around 38% of PMI's carbon footprint, thus PMI Leaf, the department in charge of sourcing tobacco, set goals and developed strategic initiatives to reduce GHG emissions. PMI found that by managing forest related-risk, it is also contributing to its GHG emission reduction goal.

#### Policy or action

Given the link between carbon emissions and deforestation, PMI decided to strengthen the management of deforestation risks by developing the deforestation risk assessment of the entire value chain and by implementing the Monitoring Framework for Sustainable Leaf Curing Fuel. The results of the assessment contribute to strategic decision making on which regions or suppliers are prioritized.

---

### **Linkage/tradeoff**

Linkage

#### **Type of linkage/tradeoff**

Decreased GHGs emissions

#### **Description of linkage/tradeoff**

By improving curing barn efficiency, we can decrease the amount of fuel needed. The plan is to improve combustion efficiency, ventilation or controls of 60,000 flue-cured barns by 2020, resulting in 10% GHG emissions reduction. The improvement has been done in Brazil, Indonesia, Spain, Italy, Colombia, Malawi, Mozambique, Pakistan, Philippines and Tanzania.

#### **Policy or action**

Good Agricultural Practices: Actions: to ensure tobacco farmers have access to the information, systems and tools needed to be successful business owners who minimize the environmental impacts of their activities and provide good working conditions on their farms

---

## **F8. Verification**

---

### **F8.1**

---

#### **(F8.1) Do you verify any forests information reported in your CDP disclosure?**

In progress

### **F9. Barriers and challenges**

---

#### **F9.1**

---

**(F9.1) Describe the key barriers or challenges to avoiding forests-related risks in your direct operations or in other parts of your value chain.**

### **Forest risk commodity**

Timber

#### **Coverage**

Supply chain

#### **Primary barrier/challenge type**

Supply chain complexity

#### **Comment**

Our use of pulp and paper products and the use of firewood as fuel for tobacco curing are the areas of our supply chain with forest-related risks. In some countries, the supply chain for firewood as fuel for tobacco curing can be very informal, with tier 2, tier 3 or tier 4 suppliers. For example, some farmers collect firewood themselves, or purchase it from firewood vendors, who may obtain it from various producers or intermediaries. Given our low level of control over these practices, achieving traceability and ensuring sustainability present several challenges.

---

### **Forest risk commodity**

Timber

#### **Coverage**

Supply chain

#### **Primary barrier/challenge type**

Limited availability of certified materials

#### **Comment**

A share of the pulp and paper products used by PMI are specialty products specific to the tobacco industry such as acetate tow and fine papers. These materials seem to be lagging behind in terms of sustainability. Only a limited amount of these products have some type of certification.

---

## **F9.2**

### **(F9.2) Describe the main measures that would improve your organization's ability to manage forests-related risks.**

#### **Forest risk commodity**

Timber

#### **Coverage**

Supply chain

#### **Main measure**

Reduced cost of certified materials

**Comment**

Even if forest certification is a voluntary process, the costs for small forest holders can be prohibitive. Expanding collaborative group certificates, according to credible standards such as FSC, will be essential to expand certification and increase the availability of certified materials.

**Forest risk commodity**

Timber

**Coverage**

Supply chain

**Main measure**

Investment in monitoring tools and traceability systems

**Comment**

One of our main challenges to manage our forest-related risks is the limited traceability from some of our suppliers. In the cases where we are advancing in traceability, monitoring costs can be high which can hinder our efforts. The availability of more cost-effective monitoring tools will facilitate our and our suppliers' ability to manage forest-related risks.

**F10. Signoff**

**F-FI**

**(F-FI) Use this field to provide any additional information or context that you feel is relevant to your organization's response. Please note that this field is optional and is not scored.**

**F10.1**

**(F10.1) Provide the following information for the person that has signed off (approved) your CDP forests response.**

	<b>Job Title</b>	<b>Corresponding job category</b>
Row 1	Andre Calantzopoulos, Chief Executive Officer (CEO)	Chief Executive Officer (CEO)